

CREDIBLE COMMITMENTS IN POLICY AND ADMINISTRATION

A Dissertation

by

NICOLAI PETROVSKY

Submitted to the Office of Graduate Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

May 2009

Major Subject: Political Science

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ABSTRACT

Credible Commitments in Policy and Administration. (May 2009)

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The theoretical argument of this dissertation contains a set of conditions under which professional personnel systems serve as political tools to make government efforts to implement public policies credible and reliable, and thus to protect democracy. The dissertation includes two empirical applications, which constitute critical cases for the theoretical argument. The first is a case study of the new merit system for the higher echelons of Mexico's federal public administration. It is based on Mexican academic literature, elite interviews conducted in November 2007, and quantitative analysis of personnel data. The second is a test of the hypothesis that officers operating under merit system protections create stability, using panel data on English local governments in the 1950s and 1960s. It is based on analysis of a panel covering budget shares and political party control. Overall, the findings from both empirical applications lend support to the theoretical argument.

ACKNOWLEDGEMENTS

I am grateful to my committee co-chairs, Ken Meier and Misha Taylor-Robinson, for their fantastic mentoring. I would like to thank them and my other committee members, Maria Escobar-Lemmon, Jim Rogers, and Lori Taylor, for their guidance and support at all stages of this dissertation. Further, I would like to thank the Department of Political Science at Texas A&M University for providing full financial support during the two years I spent studying in College Station, the faculty and graduate students for making this a very rewarding time, and all of the departmental staff for their help with matters small and large. I am thankful to everyone who generously gave me their time and support during my field research in Mexico City, particularly my interviewees and Adriana Carrillo Hernández. Also I would like to thank Cardiff Business School and my colleagues there for providing a hospitable and stimulating environment, which made it possible for me to write this dissertation besides working there full time. Finally, I am grateful to my parents for their encouragement and support.

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CHAPTER I

INTRODUCTION

Government is necessary for civilization, and its most basic functions such as defense against foreign threats, protection against violence domestically, and the enforcement of contracts underpin the ability of ordinary citizens to specialize and cooperate in ever more complex ways, improving their material, intellectual, and spiritual well-being. Government provision of education helps to foster attitudes among citizens that are conducive to the maintenance of a functioning civilization, as well as providing opportunities for those assigned a less favorable lot by the lottery of birth. Amongst all forms of government, democracies fare best in delivering these basic functions (for instance, see Przeworski et al. 2000); indeed only in democracies are there any mechanisms that can guarantee the delivery of these functions in a sustained manner. Yet even in the most consolidated and enthusiastically supported democracy, dangers remain that have the potential to unravel all the civility and prosperity accumulated over generations. At the heart of these lie the temptations of elected officials to further their own interests above and beyond the rewards they obtain in a democracy when they faithfully provide public goods. While democratic elections can remove such officials, there is no guarantee that their replacements will do any better. In

This dissertation follows the style of the *American Political Science Review*.

general, while it is vital, electoral control of those who govern is insufficient. To allow for and sustain high levels of human development, a polity requires further checks on them. The American Founders grappled with the problem of creating a system of government where on the one hand those who govern have sufficient motivation and power to create public goods but on the other hand are not too strong as to turn against the civilization they are charged with maintaining. Today, the framers' basic question still lingers beneath the surface of even the most consolidated and prosperous democracies. The major challenge for Western governments during much of this decade has been to find a response to the threat posed by suicide terrorists, against whom traditional deterrence does not work. The U.S., the U.K., and other Western democracies have responded by expanding their governments' powers of pre-emptive detention of suspects and surveillance of all citizens. While there is no evidence that these measures have failed to prevent further attacks, they have also led to concerns about the potential for abuse. In many developing countries there are not simply concerns about abuse but it is the unequivocal reality. Selective extortion by officials and unequal application of the law are fairly common and have adverse consequences for the ability of citizens to overcome poverty.

In this dissertation I shine some light on one aspect of a solution to this problem: a government's ability to credibly commit itself not to abuse its powers. I focus on merit civil service systems as political tools for achieving this aim, and I probe this idea theoretically and empirically. The U.S. savings and loan crisis of the 1980s provides one example of this mechanism at work. During the crisis, the Bank Board—the federal

agency overseeing the savings and loan industry in the 1980s—was under presidential and congressional pressure to ease off on certain aspects of its investigations into those responsible. Yet the efforts of William Black, a civil service member of the Bank Board, were instrumental in nevertheless bringing to the light of day fraud and racketeering. Most prominently, Black helped bring about the investigation against the Keating Five, five senators who had tried to shield Charles Keating, Jr., the owner of the failed Lincoln Savings and Loan Association (Riccucci 1995, chapter 2).

With this dissertation, I add a new spin to the large and venerable literature on political-administrative relations (Friedrich 1940; Finer 1941; Meier and O'Toole 2006) for three reasons: (i) I extend and generalize Miller's (2000) argument that there is a rationale for self-imposed limits on politicians' control over civil servants; (ii) I show that delegation to merit civil servants more easily locks out politicians from misuse of public funds than it locks in policies; and (iii) I provide two innovative empirical applications.

My dissertation begins with a detailed theoretical discussion of the problem of commitment and delegation to merit civil servants as a possible solution. I then empirically probe the theoretical argument using two critical cases. A critical case is one where the variables in the hypothesis under investigation take on especially relevant values for the predicted result to occur. Critical cases can be *most likely* or *least likely*. A most likely case is one where the environmental variables in the hypothesis under investigation take on particularly favorable values for the predicted result to occur. If the predicted result then is absent, the hypothesis is very likely to be false. On the other

hand, in a least likely case the environmental variables in the hypothesis under investigation take on particularly unfavorable values for the predicted result to occur. If the predicted result nevertheless occurs, the hypothesis has survived a challenging test (Flyvbjerg 2006, 229-32). I evaluate aspects of the theoretical argument against one most likely case and one least likely case. First, I probe the theoretical argument overall (politicians will credibly commit to serve the broad public interest by delegating to merit civil servants) against a most likely critical case where it should apply if it is to apply anywhere in the real world. The chosen venue is recently democratized Mexico, a case where the theoretical argument should work since there is a long-standing and severe distrust in public officials, the country has recently become a competitive democracy, and until very recently there was no comprehensive merit civil service. Next I examine the plausibility of one of the assumptions underpinning the theoretical framework (merit civil servants create stability) against a least likely critical case. If it applies there, it is likely to apply in a variety of other settings with more favorable environmental variables. The chosen venues are English and Welsh local governments in the 1950s and 1960s. One would not expect policies to remain stable there since there were large policy differences between the major parties and the only elected bodies in English and Welsh local governments, the councils, changed party control in many cases. Both of these factors would predict significant and fairly swift policy change following a change in party control. If there is still policy stability, the assumption about merit civil servants creating stability, which underpins the theoretical argument, will not have been refuted in a challenging test. In summary, while the empirical work in this dissertation does not

cover a broad cross-section of cases, it does evaluate the theoretical argument well and provide insights as to its applicability to a wide range of cases. The theoretical argument and the two empirical applications are contained in three major chapters.

Chapter II contains a theoretical argument suggesting that politicians have an incentive to delegate to merit civil servants in order to limit their options for affecting the details of policy implementation because of the ever-present suspicion that they will divert funds to small factions. After examining this problem in detail, I use a simple model and existing literature to show why such a delegation creates a credible commitment. Then I introduce another simple model, describing the introduction and survival of a merit civil system. Based on the second model I show that: (i) merit civil service reform is less likely to occur without party competition or the threat thereof; (ii) merit civil service reform is a possible but not a necessary consequence of repeated interactions of organized parties; (iii) the politician lock-out produced by a merit civil service is never definite and may fall apart even if it has been in place for a very long time; and (iv) delegation to merit civil servants by itself can never insulate policies and any claim to the contrary is spurious.

Chapter III is an application of the theoretical argument about credible commitment to the case of the new merit system for a crucial layer of the higher echelons of Mexico's federal public administration. The chapter is based on Mexican academic literature, elite interviews that I conducted in November 2007, and quantitative analysis of personnel data. I show how the major political parties managed to cooperate in introducing the new merit system, and that there is no evidence that the new service

would mainly be used to lock in loyalists of the presidential party. Further I illustrate the precariousness of the young service. Overall, the theoretical argument about credible commitment applies fairly well to the case of Mexico's new federal merit civil service.

Chapter IV is an indirect quantitative test of one of the assumptions behind the theoretical argument of this dissertation: Appointed officials operating under merit rules create stability. I test it using panel data on local governments in England and Wales in the 1950s and 1960s. I find that in spite of changes in control between two parties with clear differences in their policy platforms, there are no systematic differences in policy emphasis regardless of who governs. This null finding coupled with existing qualitative research on the important role of senior officers in preparing local government budgets lends support to the assumption that appointed officials operating under merit rules create stability.

Finally, chapter V contains a summary of the insights from each of the chapters in this dissertation as well as a discussion of a possible lesson for scholarship, and an outline of research to build upon the work begun here. In addition, in Appendix B I discuss the challenge of making causal inferences for questions such as the one I examine in this dissertation.

Overall, with this dissertation I make an original contribution by generalizing the idea of merit civil services as credible commitment devices across contexts and empirically evaluating some of the ensuing propositions. In addition, the theory chapter also has some policy relevance by pointing to the importance of merit civil services as devices helping to protect democracy.

CHAPTER II

MERIT CIVIL SERVICES AS CREDIBLE COMMITMENT DEVICES

That's why things change, Doc. Because what folks claim is right is always just a couple of jumps short of what they need to do business.

—*Robert Penn Warren, All the King's Men*

Almost all democracies in prosperous countries share one defining characteristic: merit-based civil services are in charge of large parts of policy implementation. Often civil servants are also involved in policy formulation, as Aberbach, Putnam, and Rockman (1981) found in their extensive research on the United Kingdom, France, Germany, Italy, the Netherlands, Sweden, and the United States. Most commonly this is viewed as rational delegation by politicians, who value the expertise provided by the civil servants. Yet there is no convincing reason for this expertise to require the rigidities of a merit civil service, and real-world examples of high technical expertise abound among political and short-term appointees, and especially in the United States Congress, also among legislators. In this chapter I therefore present an alternative view of why merit civil services continue to exist: They serve politicians as a commitment device against the ever-present ‘temptation of the trough.’ By that I mean the temptation to use public funds and resources for their and their friends and supporters’ private gain. Miller (2000) originally proposed this idea. I extend and refine it in a number of ways. The argument presented in this chapter is an original contribution because I show: (i)

how a modified version of Miller's (2000) argument applies to different political systems; (ii) that the credible commitment obtained through a merit civil service is never perfect and often even precarious; and (iii) that while delegation to merit civil services might lock out politicians, by itself it cannot go the additional step to commit the state to certain policies regardless of who wins an election.

I begin by introducing the 'temptation of the trough' and why politicians need to credibly commit not to fall for it and why this tends not to be easy for them. I show how this problem parallels other problems of credible commitment. Next I show why merit civil services can serve as a device for politicians to credibly lock themselves out from deciding the details of how public funds are distributed. Then I introduce a stark but helpful model of the introduction and survival of a merit civil system. Based on the model I show that: (i) merit civil service reform is less likely to occur without party organization; (ii) merit civil service reform is a possible but not a necessary consequence of repeated interactions of organized parties; (iii) the politician lock-out produced by a merit civil service is never definite and may fall apart even if it has been in place for a very long time; and (iv) delegation to merit civil servants by itself can never insulate policies and any claim to the contrary is spurious. I support all these propositions with existing literature. Finally, I outline how I test some aspects of these propositions against qualitative and quantitative data on the Mexican federal government and quantitative data on English and Welsh local governments in the 1950s and 1960s.

The “temptation of the trough”

Inevitably, large streams of money flow by politicians. At the same time citizens tend to view politicians as a different kind of people. While Alan Greenspan half-humorously suggested a constitutional amendment to bar anyone from the U.S. presidency who is willing to do what it takes to become a party’s candidate (Greenspan 2007, 59-60), there is some empirical research that shows politicians do stand out (Fenno 1978; King 1981). Combine the large amounts of money that politicians allocate in almost any democracy with the perception (or fact) that politicians are unusually driven characters, and it is not surprising that citizens almost everywhere worry about the probity of their elected officials. It is irrelevant whether or not any given politician would ever even think of hiring their own family members as lavishly paid staff, divert tax revenues into their own party’s secret offshore accounts, or pressure state-owned companies into employing lesser-qualified friends. Indeed, it may well be that the majority of politicians are at least as forthright as their constituents. Nevertheless, the widespread perception that politicians might wet their or their party’s beaks is enough to endanger the viability of their desired policies, at a minimum by making their election promises sound hollow. Particularly in many less prosperous countries, distrust of politicians may also induce productive citizens to leave or it may undermine domestic and foreign investment in the country. Even more dangerously, it may also hurt politicians by undermining popular support for democracy and paving the way for an authoritarian regime, even though those regimes usually turn out to make even very corrupt elected officials pale with their rapaciousness, not to speak of the death toll they tend to inflict.

Examples of corruption and misuse of funds by elected officials to the benefit of a favorite few can be found everywhere. There was the attempt to sell surplus public hospital land to political friends at below market price in London in the 1980s (Stowe 1992, 392). There were the millions of dollars paid to local politicians by an environmental services company as a return for being awarded the contract to build an oversized garbage incinerator in Cologne, Germany (Scheuch 2003). And there was the case of the Keating Five in 1987, where five senators attempted to exert pressure on a bank regulator to ease off in his investigation of Charles Keating, Jr., who was later sentenced for fraud and racketeering, contributing to the savings and loan crisis (Thompson 1993). While these examples had serious repercussions in the respective countries, politicians using their access to public funds for narrow ends can have far more pernicious effects. For example, Bates (1981) shows how several governments in sub-Saharan Africa used their coercive powers to redistribute income from farmers, who make up the majority of the population, to “[o]wners and workers in industrial firms, economic and political elites, privileged farmers and the managers of public bureaucracies” (121). It is no wonder that many of the most enterprising citizens of these countries see no choice but to vote with their feet and risk their lives trying to reach Spain, either over the thirty-feet-high fences with barbed wire and past the border patrol into the enclaves of Ceuta and Melilla (Carr 1997), or in tiny boats across the Mediterranean, trying to find a hole in the increasingly tight maritime southern border of the European Union with its boat and helicopter patrols and radar and heat sensors (Lutterbeck 2006).

Magaloni, Diaz-Cayeros, and Estévez (2007) show how clientelism—the provision of excludable benefits and services to citizens in exchange for political support (182)—limited the poverty-alleviating effect of Mexico’s large-scale Programa Nacional de Solidaridad (PRONASOL). It was one of the major initiatives of President Salinas’s government, elected in 1988 amidst great controversy and malfunction of the computers tabulating the votes. The program costs averaged 1.18 percent of GDP each year, which could have alleviated a third of Mexico’s poverty at least temporarily if transferred directly to the poorest households (193). Yet there is strong evidence that Salinas’s party, the Institutional Revolutionary Party (PRI), partly used these funds to tilt the electoral balance in their favor—to a significant extent in municipalities of medium-level development rather than in the poorest municipalities. As in the previous example, some of the most enterprising citizens, particularly from these poorest areas, have been voting with their feet and come to the United States regardless of the dangers of the passage and their uncertain status there.

Apart from the ‘temptation of the trough’, there is a residual danger in democracies that needs to be mentioned here, though I focus on fiscal probity in this dissertation. In a few countries that are at least formally democratic, citizens not only worry about their elected officials stealing from them but also that they might abuse or persecute them. In democracies this is a residual danger because it has been demonstrated beyond reasonable doubt that democratic governments kill far, far less people than any others (Rummel 1994). It is rare that elected governments engage in the excesses of military dictatorships, which have included the setting up of a protection

racket, where the government foments violent opposition to persuade its supporters that it needs more powers to defeat and kill members of the home-grown opposition (Stanley 1996). Still, some democratic governments at some points may resort to undue violence. As Powell (1982) argues, this has most often been the case where the executive is strongest, i.e. least checked by other powers. That in turn is often the case in newly or once again democratic countries. Brinks (2003) shows how the police in Buenos Aires, Argentina and particularly São Paulo, Brazil engage in undue killings of slum inhabitants and are only very rarely (6% of the time in São Paulo and 24% of the time in Buenos Aires) held responsible by the courts (8). The lack of a rule of law for poor citizens cannot but undermine any attempts at making the rule of law credible overall. While extrajudicial police violence currently by and large only affects poor people, citizens from other sectors of society may well secretly applaud the police's killings but in the backs of their minds they will probably also develop a concern that politicians might one day, under different circumstances, send the same unrestrained police forces after them. Once again, there is a commitment problem. For the rest of the dissertation, I focus more on fiscal probity and the reliability of policies but it is clear that the fundamental credibility problem of politicians sometimes even includes citizens' personal safety.

As elaborated above, if politicians are perceived to have the possibility of diverting public funds into their own or their friends and supporters' pockets, they themselves suffer in a number of ways. Understood in terms of a principal-agent relationship, politicians inevitably face difficulty persuading the principal to contract

them (Ferejohn 1999; Moe 2005). To avoid this, they try to credibly commit that they will not fall for the ‘temptation of the trough.’ In other words, they try to credibly lock themselves out from the possibility of diverting public funds into their own or their friends and supporters’ pockets. This is politicians’ commitment problem.¹ I now introduce the generic problem of credible commitment and how it can be resolved. Then I show how politicians’ commitment problem has the exact same structure and how the merit civil service provides a solution to the problem.

The problem of credible commitment

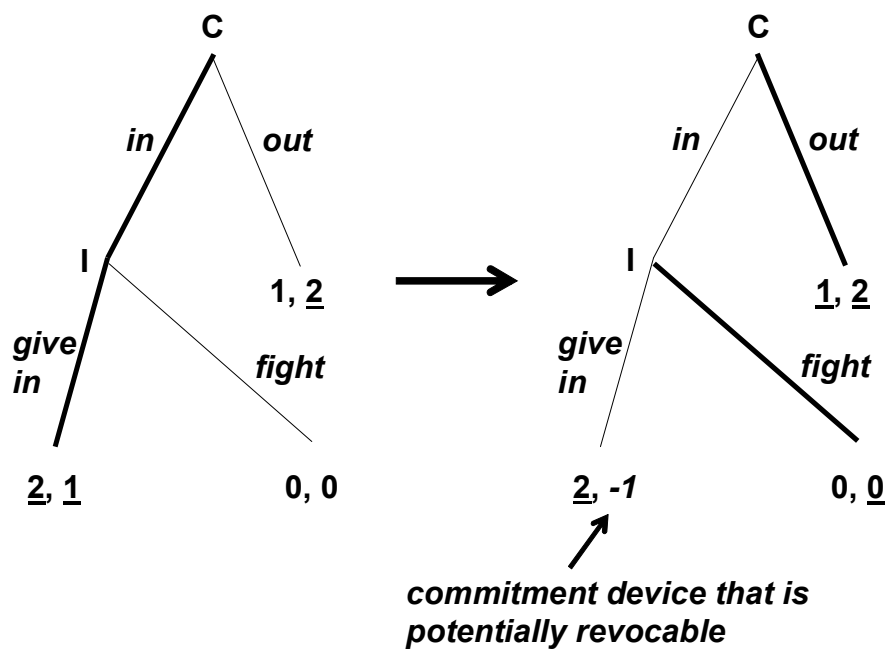
How can politicians show that they will refrain from resorting to ‘the trough’? Citizens have no reason to believe politicians’ claims to this end because they know that there are incentives for politicians to divert funds into their own or their friends and supporters’ pockets. It is irrelevant here whether any given politician would ever even dream of engaging in such acts. All that matters is that it could benefit them, and therefore any statement they make about their probity is not credible—it is simply cheap talk. A statement made by a person about what they are going to do in a future situation can only be credible if, when that situation arises, it is in their own best interest to do what they claimed that they were going to do. To make this clearer, I first show how this problem of credible commitment can be represented in a very simple game. Then I present two real-world problems of credible commitment, each with a little twist.

¹ I do not pursue the principal-agent analogy between citizens and politicians further because it is a theory of how to design mutually beneficial contracts under information asymmetry, where neither party can coerce the other. It is consequently more helpful to understand interactions between citizens and politicians when the latter have already more or less succeeded in overcoming their commitment problem.

Finally, I show how the problem applies to politicians. In the next section I then explain how a merit civil service can help them to solve it.

First, I introduce the problem of credible commitment using a so-called ‘entry game’ (cf. Osborne 2004, 156). There are two stores, the Incumbent (*I*) and the Challenger (*C*). Currently, *I* is the only store in town. It prefers to remain the only store in town, i.e. it prefers *C* to stay out. *I*’s second-most preferred outcome is where *C* enters the town and *I* does not engage in a ruinous price war against *C*, i.e. where *I* gives in to *C*. *I*’s least favorite outcome is where it fights *C* by engaging in a ruinous price war with it. *C* on the other hand most prefers to enter the town and see *I* give in to *C*. *C*’s second-most preferred option is to stay out of the town. Similarly to *I*, *C*’s least favorite outcome is to enter the town and find itself fighting a ruinous price war against *I*. The game tree on the left-hand side of Figure 1 graphically represents this situation.

Figure 1: Entry game without and with credible commitment



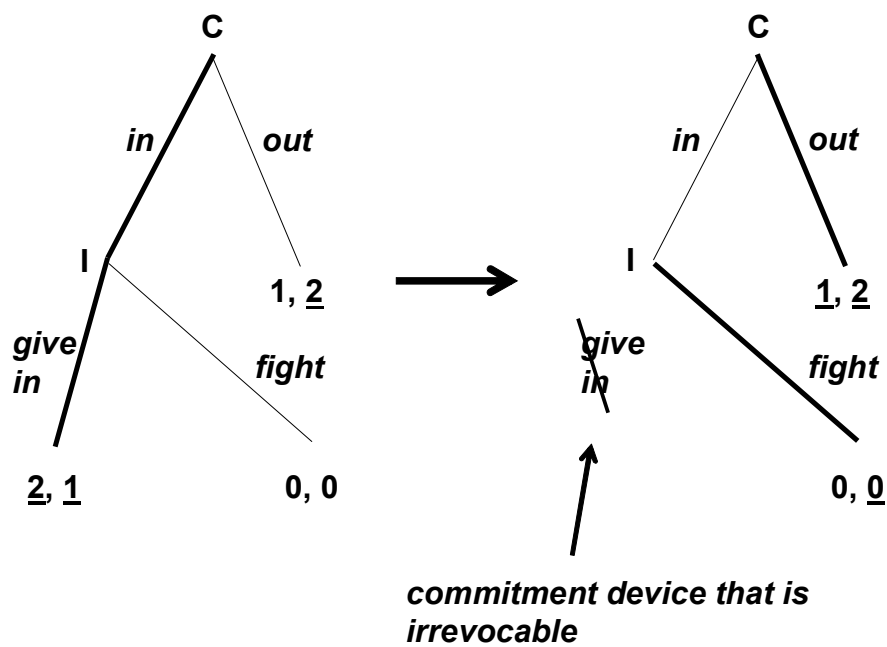
First C moves. It has a choice between entering the town (in) and not entering the town (out). If C enters the town, I gets to choose between giving in and fighting a ruinous price war. After this choice, the game ends. If C chooses not to enter the town, the game immediately ends and I does not get to do anything. It simply remains the only store in town. The pairs of numbers at the ends of the nodes are the payoffs. The first number is C 's payoff (because C moves first) and the second number is I 's payoff (because I moves second). The payoffs are nothing more than ordinal ranks, i.e. 2 is preferred to 1 to 0. They have no intrinsic meaning and are not comparable between players, i.e. nothing implies that a 2 means the same to I as it means to C , other than that it represents the most-preferred outcome for each. The game is solved by backward induction. Since I would rather give in than fight a ruinous price war, if it gets to move it will always choose to give in. Knowing this, C has a choice between a payoff of 2 for entering the town (in), knowing that this choice will result in I giving in, and a payoff of 1 for staying out. It chooses the best option available to it, in, and thus the only equilibrium of the game is where C enters the town and I gives in. I 's problem is that it is stuck with a less-favorite outcome. It loses its monopoly in the town. What can it do? It could threaten before the game that it will start a ruinous price war should C enter the town. Yet C knows that I would still prefer to give in rather than to fight, so the threat would be empty. It would be cheap talk, and achieve nothing.

The only way I can achieve credibility is by making 'fight' preferable to 'give in.' It can do so by using a commitment device that alters its payoff for give in. For example, it could sign contracts with its customers to give them gasoline vouchers

should *C* enter the town and *I* fail to underbid *C*'s prices. Given the development of oil prices, this is likely to be even more ruinous to *I* than to engage in an old-fashioned price war with *C* should *C* enter. The effect of the commitment device, namely the contracts with its customers, is visible on the right-hand side of Figure 1. Since *I* now prefers to fight over giving in (which would mean having to provide increasingly expensive gasoline vouchers), *C* now prefers to stay out of the town rather than to enter it and face a ruinous price war. By creating a commitment device and limiting its own options, *I* has achieved a better outcome for itself. This is the basic principle of credible commitment.

Now note that I flagged *I*'s payoff alteration, its commitment device, as potentially revocable. What does this mean? Suppose *I* suffers from a momentary bout of irrationality and makes a mistake in responding to *C*. For example, it could falsely bet that gasoline would become much cheaper soon and so giving in and paying for the gasoline vouchers might turn out to be preferable to fighting the price war. If *C* was aware of this miscalculation, the credible commitment could still break down and *I* might end up seeing *C* enter town after all. Is this a problem of all commitment devices? It is not. Sometimes, it is possible not only to make a choice less attractive but to eliminate it completely. Figure 2 represents this.

Figure 2: Entry game with an irrevocable commitment device

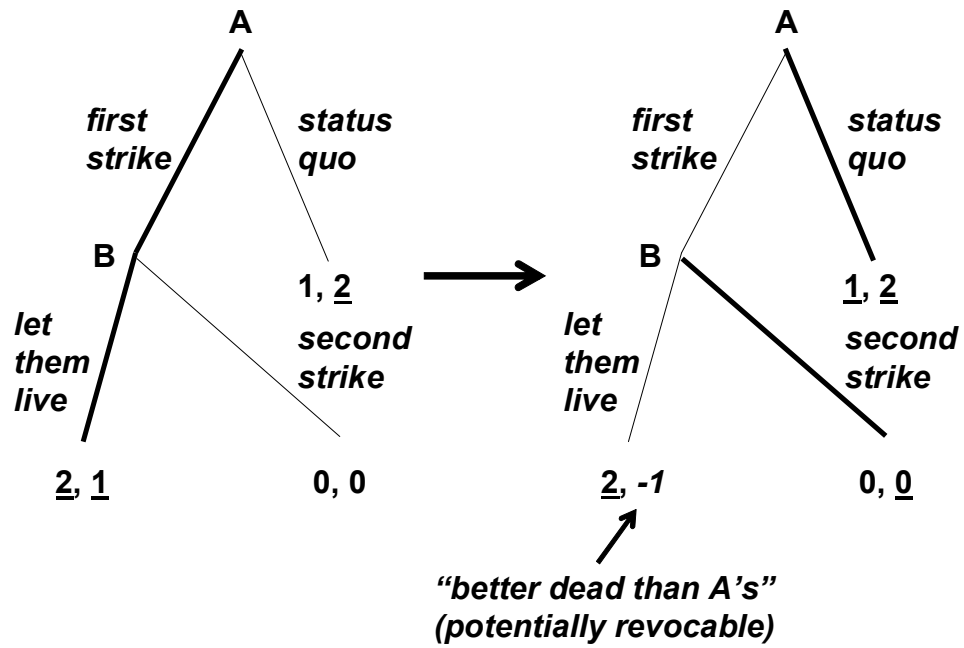


Here, *I* has managed to completely eliminate its choice of giving in should *C* enter the town. It might have handed over its pricing decisions to an algorithm that would inevitably underbid *C*'s prices should *C* enter the town. With this irrevocable commitment device, it is a certainty that *I* will fight should *C* enter the town. Again, *I* achieves its desired result: *C* stays out. And this time, there is no concern that a possible miscalculation by *I* might undermine the credible commitment. Yet this is not necessarily preferable to the potentially fallible commitment device depicted in Figure 1. In the first of my two real-world examples it will become obvious that irrevocable commitment devices are dangerous, to say the least.

Attempting to solve the problem of credible commitment is not an academic exercise. I give two real-world examples in order to underline this point: (i) a country's need to show its willingness to carry out a second strike as a necessary condition for nuclear deterrence to work; and (ii) a non-immigrant visitor's need to show that they will return home by the end of their authorized stay in order to be admitted in the first place. Both of these problems have a little twist of their own, which will be relevant later on when I explain how this applies to politicians.

The first problem of credible commitment that I examine arises in nuclear deterrence. Most people born before the early to mid-1980s have been very aware of it. In its original form, nuclear deterrence is based on mutual assured destruction. If country 1 carries out a nuclear attack on country 2, country 2 will still have enough firepower left to destroy country 1 in the second strike. This works if both sides fulfill three necessary conditions: (i) they prefer to avoid seeing their own citizens die; (ii) they have the ability to protect enough weapons from a full first strike by the other side to still be able to carry out a full second strike afterwards; and (iii) they are willing to carry out a second strike after their country has been destroyed and most of their citizens have been killed. The credible commitment problem arises with the third necessary condition. As Kenny (1985, 55-56) makes clear, should the deterrent fail, that is, should the country come under nuclear attack, people who value the preservation of innocent life will prefer to surrender over carrying out the second strike. The problem in deterrence is that if this were known to the potential attacker, the whole threat of a second strike would no longer be credible and the deterrent would have ceased to work. Figure 3 shows that this has the same structure as the entry game discussed above.

Figure 3: Nuclear deterrence game without and with credible commitment



There are two fictional countries, A and B . First, A decides whether or not it should carry out a first strike to kill the citizens of country B or preserve the status quo by doing nothing. If A does decide to carry out a first strike, B faces the stark choice between letting the citizens of A survive and thus saving a part of the human race or carrying out a second strike and killing most of what is left of the human race. Since B most prefers the status quo where everyone lives and still prefers the preservation of at least some of humanity over the slaughter of everyone, any threat B makes to carry out a second strike is empty. If A was possessed by an ideology that made it prefer to kill B over continuing to co-exist with B , which is reflected in its payoffs in Figure 3, then the equilibrium would be an attack by A on B , which A survives because B does not carry out a second strike. What can B do to achieve its most preferred outcome in this game, namely continued existence of the entire human race?

One solution would be for B to once and for all remove its capability to decide whether or not to carry out a second strike. B would hand over the command over its nuclear weaponry to an indestructible machine that would automatically carry out the second strike if it detected a first strike. Yet such detection is never perfect. To underline this point, there is no need for examples from Hollywood because reality provides enough herself. In 1983, the Soviet Union launched a new satellite-based early warning system. During the autumn equinox on September 26, in a most unusual constellation of one of the early-warning satellites and the sun right above the location of one of the U.S. ballistic missile sites, the satellite falsely detected the launch of a few American missiles. Lt. Col. Stanislav Petrov, who was responsible for monitoring the

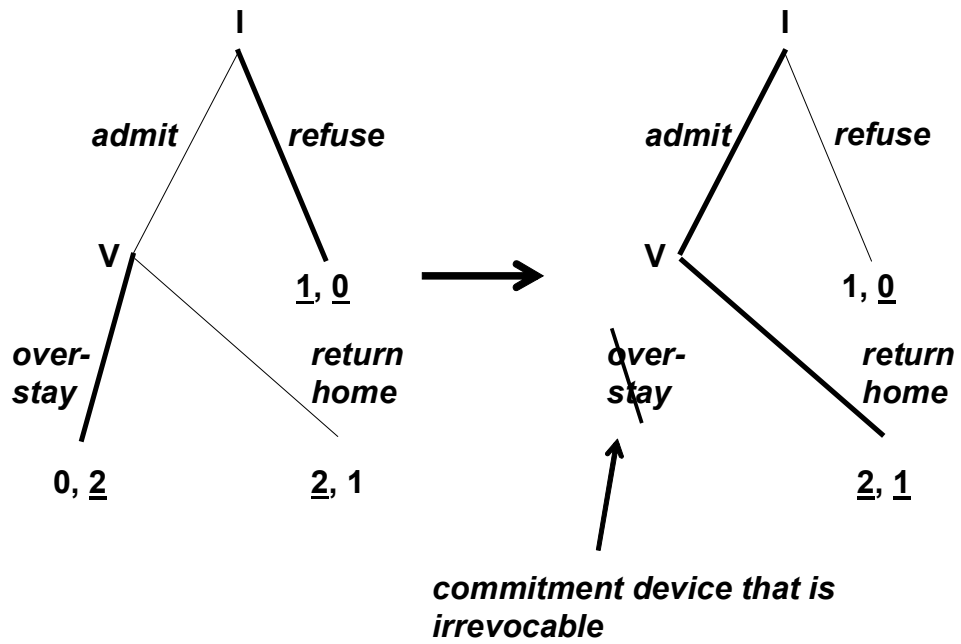
data at that moment, chose not to pass on the alert to the national leadership because “when people start a war, they don’t start it with only five missiles” (Forden 2001). Without Petrov’s common sense, this dissertation probably would have never been written.

Since an irrevocable commitment would have been too dangerous, the solution that appears to have been pursued during the Cold War was to invest in second strike capability (as necessary condition (ii) requires) and at the same time induce the adversary to believe that even though the commanders in chief might prefer to surrender in order to save a part of the human race, it is not inconceivable that they would rather prefer to be “dead than red” in the case of the U.S. and rather be “dead than capitalist” in the case of the Soviet Union. The twist in this example is that the credible commitment had probably been rather weak but given the unlimited cost of underestimating one’s adversary’s resolve, it appears to still have worked. I now turn to an example where credible commitment needs to be very strong to function.

The example I present now is far less chilling, and the survival of the human race does not depend on it. Still, it is of great consequence for the individuals affected. All rich countries admit non-immigrant visitors under the condition that these return home by the end of their allowed stay. People from countries that differ significantly in the opportunities they offer from the rich country they would like to visit face a credible commitment problem. This differential in opportunities is known to them and to the immigration authorities of the rich country. Therefore an intending visitor from such a country will be perceived to have an incentive not to return home at the end of their stay.

Any claim of the intending visitor to the contrary is simply cheap talk to the rich country's immigration authorities. In the United States, this is ensured by legislation: "Every alien [...] shall be presumed to be an immigrant until he establishes to the satisfaction of the consular officer, at the time of application for a visa, and the immigration officers, at the time of application for admission, that he is entitled to a nonimmigrant status [...]" (U.S. Immigration and Nationality Act Sec. 214b). While this presumption is not codified in the same way in every rich country, their consular and immigration officials are nevertheless generally trained to hold and apply it in a similar fashion. One can only speculate whether American legislators are more concerned about officials being generous and soft-hearted than their colleagues in other countries. In any case, the problem faced by intending visitors is summarized on the left-hand side of Figure 4.

Figure 4: The commitment problem faced by intending non-immigrant visitors



First, the immigration authorities (I) decide whether or not to admit the intending visitor (V) to the country, then V decides whether to overstay or to return home in time. The preferences for both players describe I 's understanding of both itself and of V . Thus, without a credible commitment by V to return home, I believes that V prefers to overstay and consequently refuses I admission, resulting in the worst possible outcome for I .

How can V convince the relevant officials that they have no incentive to stay longer than allowed? For someone of modest means who nevertheless genuinely has no interest to stay longer than for a short visit, this may prove impossible. Countless people from the rest of the world never visit rich countries because they cannot credibly commit to return home at the end of their visit. If V could somehow remove their option of overstaying, it might enable them to obtain admission from I . One suggestion to solve this problem was included in the failed "OVERDUE Immigration Reform Act of 2007" bill in the 110th Congress. Certain intending visitors would have been required to post a huge bail bond in order to be admitted to the country. A visitor lacking the appropriate means would have been able to sign a contract with a bail bond agent, who would have posted the bond. If the visitor had not left the country by the end of his or her stay, the bail bond agent would have found and delivered them to immigration authorities in order to recover their funds (Sec. 317 of H.R. 4192, 110th Congress). This is represented on the right-hand side of Figure 4, where the high likelihood of being caught by the bail bond agent removes V 's option to overstay and consequently I admits them to the country in the first place. This is harsh but would have been a solution to the credible

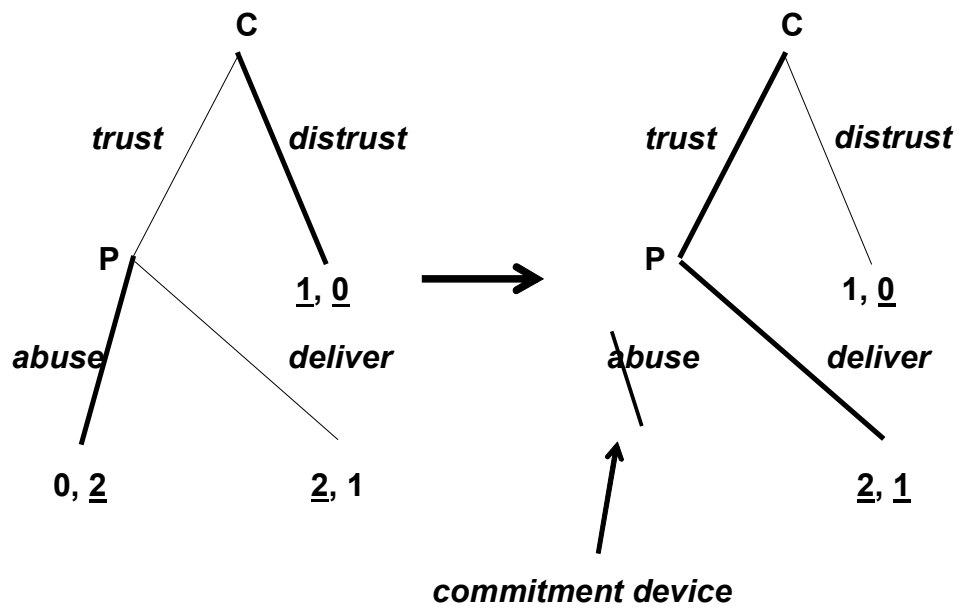
commitment problem for a number of non-immigrants. The approach is not completely hypothetical. As part of the overhaul of the immigration rules, the British government considered implementing a lighter version of this approach: People who live in the UK and want to invite their relatives from a number of less prosperous countries for a visit might in the future have to deposit £1000 per head with the authorities, to be returned if and when their relatives have left the country again (BBC 2007). The twist in the example of the intending visitor is that it does not matter at all what the true preferences of V are and whether or not they would ever even think of overstaying. All that matters is that I suspects that they might and admits V only if they can credibly commit not to overstay.

The lesson underlined by these examples is that important situations exist where people are worse off in the end by not being able to limit their options in advance because this inability makes them lack credibility. Politicians face the same problem: given it is known that they might have an interest in using the powers of their office to divert funds into their or their friends and supporters' pockets, how can they convince citizens that they will not do so? As in the examples above, any declaration by a politician that they will not do so lacks credibility because it is perceived as the most attractive option to them, even though overall it may hurt them by undermining their position. It may hurt them by inducing productive citizens to flee or remove their assets from the country, undermining various public policies. It may also hurt them by undermining popular support for democracy and paving the way for an authoritarian regime. The basic structure of the problem of the credible commitment applies to

politicians' need to show that they will 'refrain from the trough.' If they can set up a commitment device that removes their option of deciding about the details of how public funds and favors are distributed, they can gain the necessary credibility. Figure 5 illustrates politicians' problem of credible commitment using the by now familiar game.

In this simple game, the citizen moves first, followed by the politician. The citizen chooses whether or not to trust the politician. 'Trust' is a shorthand for paying taxes, co-producing policy, and staying invested in the country. If the citizen chooses to trust the politician, they then get to choose between delivering policy and abusing the citizen's trust, i.e. resorting to the 'trough.' The payoff pairs at the bottom of the game represent the players' preferences, where a higher number indicates an outcome is preferred more. Since the citizen moves first, their payoff is always the first number of a payoff pair and the politician's payoff is always the second number of a payoff pair. The citizen most prefers to trust the politician and have them produce policy (2). They prefer that over not trusting the politician (1), which in turn they prefer over trusting the politician and then being abused (0). Now, the commitment problem arises because the politician prefers (or is assumed by the citizen to prefer) being trusted and resorting to the 'trough' (2) over being trusted and delivering policy (1). The resulting equilibrium—distrust of the politician and no room for action for them—is their least-preferred outcome.

Figure 5: Politicians' commitment problem



The only way that the politician can move to a better outcome for themselves is to remove their most-preferred option—to abuse the citizen. In other words, they need to limit their own discretion so that they can no longer easily access the ‘trough.’ If they achieve this self-restraint, i.e. if they credibly remove the ‘abuse’ option, then and only then will the citizen trust them. A commitment device is a mechanism that limits the committing party’s freedom of action, and that is exactly what the politician attempts to achieve here. If they succeed, we move to the right panel of Figure 5 and the equilibrium is now one where the citizen trusts the politician, who in turn delivers policies to the citizen.

By taking decisions about the details of policy implementation out of their hands and instead placing them in the hands of people whose best interest it is to follow rigid procedures or other predictable and universal rules, politicians can commit to ‘refrain from the trough.’ This is the rule of law in action, and so far it has been best achieved by a merit civil service. As I explain in the last major section of this chapter, politicians’ attempts to insulate policies such as low inflation are a closely related phenomenon. A merit civil service can function as a commitment device for politicians because merit civil servants differ from politicians in two ways: (i) they have no incentive to divert funds or be arbitrary and capricious because strong sanctions await them if they do, and (ii) many of them are different types of people from politicians. The former is ensured by an integral part of merit civil services, namely policing agencies. The crucial element for policing agencies to work is that unlike politicians, neither civil servants nor policing agencies can change the legislation on which their terms are based. The legislation

establishing policing agencies induces them to have an interest in sanctioning shirking and sabotage by civil servants, making these sanctions credible. The latter is ensured by the terms and conditions of merit civil service jobs, which attract people who are more risk-averse than politicians and many of whom derive intrinsic satisfaction from their work.

The merit civil service as a commitment device

How can a merit civil service help politicians to show that they lock themselves out from deciding the details of the distribution of public funds and favors? In this section I explain the mechanism behind this credible commitment. A state apparatus that is predictable and restrains itself through a merit bureaucracy serves to dissipate some of the perceived or real dangers induced by the nature of politicians, thus enabling them to achieve more of their policy goals in the first place. Again, this is not a new idea. Miller (2000) argued that every state has potentially two sides: a benign one that creates public goods and a malevolent one where politicians use the state's power of coercion to exploit citizens and extract rents from them for their own benefit or the benefit of their favorite factions (289; also see Weingast 1995, 1). A widespread perception among citizens that the dark side of the state is prevalent hurts politicians. This is because when people mainly perceive the dark side of the state, entrepreneurial people, whose energies are needed for many policies to work, are less likely to stay invested in the country and instead remove their assets or even themselves from it. To further illustrate how merit civil servants can restrain politicians, here are two less dramatic examples. First,

accounting officers can ensure that elected officials pay the same price for government land on sale as everyone else (Stowe 1992, 393). Second, government statistics agencies can avoid political meddling with unpleasant figures by publishing them immediately, removing the opportunity for elected officials to redefine measures² or stop publication. An empirical example of this is the UK Statistics authority, which began its work on April 1, 2008. This new auditing agency oversees the quality of official statistics and the conclusions drawn from them and has the power to enforce corrections. The UK Statistics Authority is an attempt to enhance credibility of government statistics in a country where only a small minority of the population believes they are produced without interference by the government of the day (Economist 2008a).

A lot of contemporary political science focuses sharply on representation through law-making and the effects of electoral competition. I argue that this works well only because mechanisms such as the rule of law that restrain arbitrary actions by politicians (e.g. helping themselves to public funds for their own or small factions' gain) are functioning in the background of representative democracy. Tilly (2007) stresses such protection against arbitrary state power as one of four crucial elements of a functioning democracy, the others being broad-based suffrage, equality of political rights, and officials having binding and enforceable obligations to citizens: "at one extreme, state agents constantly use their power to punish personal enemies and reward their friends; at

² As an example, since June 10, 2008, per presidential directive the Argentine consumer price index is redefined every time a good or service in the basket experiences a sharp price increase; the offending good or service is then simply removed from the index to keep the official inflation figures palatable (Economist 2008b).

the other, all citizens enjoy publicly visible due process” (15). As I argue below, merit civil services help maintain due process and the rule of law.

The idea of credible commitment in domestic politics is not new. Before Miller (2000) applied it to merit civil services, it had been used to describe the benefits of limited government and the costs of flexibility in policymaking. I briefly look at both topics before proceeding to merit civil services, in order to show that credible commitment is a big and widely applicable idea not only in general but also for political science in particular. Indeed I suggest that there are still increasing returns to applying this idea more widely throughout political science and to testing it empirically in different institutional settings.

First, there is the overall idea that limited government—a sovereign held in check by representatives without guaranteed tenure—served as a catalyst for the industrial revolution. The limitations on the King’s power imposed by Parliament during the Glorious Revolution restrained the King from reneging on loans and thus allowed the banking business to develop and flourish. The increased supply of money then fueled the industrial revolution (North and Weingast 1989). Surely, this would have played out differently without the coal and iron ore available in England, Wales, and Scotland. Nevertheless, a catalyst was needed to unleash this outburst of commercial energy. In this application, the credible commitment is by the Sovereign not to renege on loans. Even before the Glorious Revolution, the Sovereign would have always been better off honoring loans. Yet after a given loan was taken out, in certain cases the Sovereign was tempted to renege on it and thus save the repayment. By stripping the King of the power

to renege on a loan, it became possible for him to borrow more. Of course this depended on Parliament being less likely to renege on loans than the King. The quickly developing financial market held this view and it was not proven wrong; the English and later British Sovereign has not defaulted on its debts since then. Nowadays, the problem of the English kings of the past lives on in the risk premiums the governments of many less prosperous countries have to pay when they want to borrow.

Aside from limited government, there is the idea that full flexibility in policymaking can lead to worse outcomes than the application of simple and strict rules. Kydland and Prescott (1977) started a large literature in economics with this insight. They showed theoretically that if a government wanted to maximize social welfare, i.e. to achieve a situation where no-one can be made better off without making at least one person worse off, the government would be less likely to achieve this goal if it had full freedom to recalibrate policy every time circumstances change and more likely to achieve it if it removed its freedom to act in advance by adopting strict rules that it would have to follow in the future regardless of what happened. How on earth could this be? The reason is that people are not simply reactive entities; rather, they tend to form expectations about what is going to happen in the near future. It is these expectations that undermine the effects of a policy that appeared optimal and optimally planned out in the previous time period. In the next time period people's expectations have led them to change their behavior, which undermines the policy that was optimal in the previous period and would have stayed optimal had people not changed their behavior, forcing the government to abandon its plans made in the last time period and change policy. It

needs to be stressed that this has nothing to do with imperfect foresight on behalf of the government:

The reason that such policies are suboptimal is not due to myopia. The effect of this decision upon the entire future is taken into consideration. Rather, the suboptimality arises because there is no mechanism to induce *future* policymakers to take into consideration the effect of their policy, via the expectations mechanism, upon *current* decisions of agents.

(Kydland and Prescott 1977, 481; emphasis in the original).

Thus, with governments able to adjust policy as circumstances change, social welfare is not optimized. On the other hand, it would be optimized if the government could credibly commit itself to a set of simple decision rules that it would not be able to alter in the future. Only this way would people form the expectation that the policy would still be in effect in the next time period and thereby not start to undermine it now with their expectation-driven behavior. King (2006) elaborates on a particularly nice example of Kydland and Prescott's (1977) argument. It concerns the development of flood plains for housing in prosperous countries. Initially there is no housing in the flood plains, and since the cost of building a dam outweighs the overall benefits of housing in the flood plains (e.g. sea views), the Pareto optimal situation would be if the dam were not built. If many people were to move to the flood plains, a dam would be beneficial in that it would make people better off than if they were living in the flood plains and there was no dam. Nevertheless, overall there would be a reduction in welfare from the original situation where no-one lives in the flood plains to the situation where many people move

to the flood plains and a dam is built. A government that cannot credibly commit not to build a dam is likely to be forced to build the dam in the future. The reason is that people will move to the flood plains in order to enjoy the sea views. If a sufficient number of them move to the flood plains, they will be able to lobby the government into building the dam. This dam will be financed by taxing everyone, including those people who did not move to the flood plain. In this way, overall welfare is reduced. Yet it is a likely outcome when the government cannot commit not to build the dam because people will know this and anticipate that if enough of them move to the flood plains, they will be able to lobby the government to build the dam. Only if people could commit the government in advance not to build a dam regardless of what happens could they achieve the Pareto optimal outcome.

Where did Kydland and Prescott (1977) draw this idea from? In the two decades prior to the mid-1970s, economists tried to prescribe economic policy based on ever-more elaborate statistical models of the economy. These models were systems of hundreds of equations. The idea was to have a good theory of how humans interact in the economy, test it against all available data, and then use the parameter estimates to predict what would happen if one or more of the variables were altered. By the mid-1970s this enterprise had gotten very shaky because the models simply failed to predict (Sims, Goldfeld, and Sachs 1982). In 1976, the ‘Lucas critique’ finally killed most of it by also undermining its theoretical rationale. Lucas (1976) showed that rational individuals will alter their behavior in anticipation of a policy change, thus invalidating the precepts of the policy: “any change in policy will systematically alter the structure of

econometric models” (41). In other words, the following apparently reasonable approach is bound to fail: We study a policy and its apparent or real effects using excellent data and estimate parameters representing the effect of the policy. We then use the insights gained from these parameter estimates to change the policy, for example to increase policy outputs. The approach fails at this step: Since we have changed the policy, our old model of how the policy works—the model that we used in designing the policy change—is no longer valid. A new model has now replaced it, with different parameters. In short, when the policy changes, the model also changes. One implication is to be particularly careful with studies using existing relationships between people’s behavior and policy outputs to create hypothetical scenarios, as in the substantively weighted analytical techniques (SWAT) approach (Meier and Gill 2000). For example, suppose a hypothetical school district where 90% of students attend regular state schools and 10% of students attend charter schools. Also suppose that the charter schools are characterized by teacher salaries that are on average lower than those in the state schools but still manage to attract high-quality teachers because of their reputation, which is a function of their uniqueness. Now suppose in our hypothetical district these charter schools outperform nearly all state schools in terms of outcomes of teaching. A SWAT analysis of these data creates a simulated district with a far larger proportion of students in charter schools than in reality. The reason is that one of the stated aims of SWAT as introduced by Meier and Gill (2000) is to learn from excellence rather than from mediocrity. In my hypothetical example, the SWAT analysis would suggest that teachers’ salaries would not matter much in predicting outcomes of teaching. Yet it is

doubtful that one would learn anything useful because it is likely that if more charter schools were opened they would lose their better reputation relative to state schools and consequently no longer attract high-quality teachers. Salary would indeed become very important in this scenario because the other incentive for teachers to join a charter school, the reputational benefit, would have disappeared. This was but a very simple example of the idea that if the incentives for a group of people are altered through a change in policy based on the best insights about their behavior under the old set of incentives, these people may still end up anticipating the new incentives and thereby react very differently from what we expected. Thus public administration may be a ‘science of design’ (Simon 1996) but the design part is extremely tricky because people base their behavior in part on their expectations. Whether or not the Lucas critique applies to a given problem is an open question, but anyone who would like to make a policy prescription would do well to reflect on it (Brandt and Freeman 2006, 8-9). It could be argued that the introduction of a direct tax might be a policy that the Lucas critique does not apply to. Yet at least in the United States with its generally slow and very deliberative policy process people will have ample time and opportunity to form expectations about almost any policy. Anyone who would like to advise policy will need to take these expectations into account.

Returning to the question of credible commitments and the state, the two examples showed that limitations on the Sovereign’s power and limitations on flexibility in policy making can be beneficial. Next I show that the same logic also provides a plausible explanation of why politicians support merit civil services that limit their

ability to direct the details of policy implementation and target public funds to specific recipients. In other words, the logic of credible commitments provides an explanation for why politicians would install merit civil services to lock themselves out from deciding over the details of how public funds are distributed. Now I explain the mechanism behind this credible commitment.

Miller (2000) explains a large part of the mechanism behind merit civil services as commitment devices for politicians but Horn (1995) also provides some insights. Miller (2000) is mostly about the U.S. civil service but most of his argument has far wider applicability. In a nutshell, Miller (2000) suggests that having a merit civil service system somewhat shelters the implementation of policies from day-to-day influence by political actors. If elected officials were unconstrained, overall social welfare would be reduced as they would constantly have incentives to divert policy benefits to crucial constituents, to the detriment of the majority of citizens. Of course, a more direct constraint would be a ban on earmarks. Yet legislators find it easier to agree on establishing and maintaining a merit civil service than banning earmarks because the latter resembles the “Tragedy of the Commons” (Hardin 1968). While every legislator knows that they undermine public confidence in the legislature and reduce the availability of funds for more broad-based policies, any individual legislator is still better off continuing to graze the public purse for just one more earmark to please constituents whose support is crucial for the next election. Fortunately, the erosive effect of earmarks on public confidence is limited by the second-best option of having merit civil servants carry out the day-to-day implementation of most policies. If the option to

commit through delegation to a merit civil service did not exist, knowledge of the incentives elected officials have would reduce productive economic activity.

Since the American federal bureaucracy is largely a merit civil service, it is not hyper-responsive. As Wood and Waterman (1994) show, regulatory agencies respond to political influences short of legislation but not excessively so. By dissipating day-to-day political interventions, they ‘represent the law’³—they constrain politicians to stick to the terms of legislation by managing to withstand day-to-day political influences contrary to their missions (cf. Wood and Waterman 1994, chapter 5).⁴ This way they allow politicians to credibly commit to represent broader groups rather than narrow factions, their supporters, or friends, as is the case in many of the less prosperous countries (Keefer 2007). How do merit civil services achieve this for politicians? Part of the explanation lies with the credible commitment mechanism Miller (2000, 314) stipulates. It is made up of three parts: (i) civil service legislation protects the merit system overall; (ii) career bureaucrats’ preferences are shaped by the “protective ideology” of neutral, professional competence; and (iii) bureaucrats also protect themselves against day-to-day influences from elected officials by using the “useful myth” of the politics/administration dichotomy. The idea of the “useful myth” has a parallel in Hood’s (2002) argument about the *public-service bargain* that can be observed in most established democracies. This notion covers an often implicit agreement between elected politicians and senior civil servants on where the

³ This idea originally stems from David Rosenbloom, for instance see Rosenbloom (1983).

⁴ In most federal agencies merit civil servants were able to carry out this function in the early years of the Reagan presidency. Yet there is one extreme case where they were so curtailed by budget cuts that they could no longer ‘represent the law’: the Bureau of Land Management (Durant 1992).

responsibilities and entitlements of each lie (318). This bargain not only varies widely from country to country but also has been changing over time within most countries (319-24).

Miller's (2000) credible commitment mechanism combines a reason for why the system remains in place—those parts of the civil service legislation that stipulate its existence—with the nuts and bolts of how it works. It is fruitful to separate these two. In this section I focus on how the credible commitment mechanism works. In the next section I then present a stark but helpful model of how politicians agree to introduce and then maintain merit civil services.

From Miller's (2000) argument, two crucial elements can be distilled. They are jointly necessary for a merit civil service to act as a commitment device for politicians to lock themselves out from deciding the details of how public funds are distributed: (i) there are strong incentives for bureaucrats not to 'serve themselves from the trough' and not to engage in favoritism in implementing legislation; and (ii) the conditions of work in the civil service attract a specific type of person who has what is known as *public service motivation*.⁵ In other words, the credible commitment mechanism is based both on compliance and on selection. I now examine each of these two elements.

First, there is compliance. Administrative rules lay out the ways in which bureaucrats have to act. While this inevitably leaves a lot of discretion to them, it does limit bureaucratic corruption and malfeasance by listing improper behaviors and

⁵ The concept of 'public service motivation' denotes "an individual's predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations" (Perry and Wise 1990, 368). For an empirical evaluation of its construct validity, see Perry (1996).

specifying sanctions. These sanctions are severe, since not only does the job safety of bureaucrats, itself an element of protection against undue political influence, depend on their refraining from corruption and malfeasance but also their pensions are contingent on not being dismissed for such improper behavior. Of course this incentive is seriously weakened if the pensions themselves are under direct control of elected officials.

How do the incentives to achieve compliance by merit civil servants work, and why do they appear to work so well? As Weingast (1995) stresses, written rules that no one has an interest in upholding are not worth the paper they are written on (3). Enter the policing bodies that audit and discipline the members of the merit civil service. In the U.S. federal government, the agencies' inspectors general play this role (Newcomer 1998), and in Mexico the formally similar Internal Control Organs (*Órganos Internos de Control*—cf. Chapter XVII of the 2007 merit civil service regulation). These bodies prosecute theft and malfeasance by bureaucrats. Politicians have an interest in them doing so because if they did not, the whole credible commitment would sooner or later break down. What makes the policing bodies work is that they themselves cannot change their mandate, which is fixed by legislation.⁶ This is also the main reason why one does not find nearly the same degree of self-monitoring by legislatures. As with a ban on earmarks discussed above, such a first-best option is far more difficult to achieve than the second-best option of using a merit civil service that is well-policed.

By stipulating fixed procedures for many administrative actions (consider especially the Administrative Procedures Act in the United States and administrative law

⁶ A possible normative implication is that in a democracy, the bureaucracy is never the fourth power of government (Meier 1993), but a subordinate if important power (Bertelli and Lynn 2006).

in Germany), administrative responsiveness to day-to-day political influence is reduced. Both the Administrative Procedures Act and German administrative law open most administrative decisions to judicial review (for a discussion of the German case, see Bogumil and Jann 2005). In a sense, administrative procedures create serious ‘transaction costs’ that reduce the net value elected officials can obtain from particularistic interventions in the bureaucracy (Horn 1995). Of course, these strict and detailed rules clearly have downsides, and one is reduced responsiveness. This is one thing that Wood and Waterman (1994) go to great lengths to point out: while the American bureaucracy clearly reacts to some political influence and certainly does what it is supposed to do based on the law, it also dissipates day-to-day political influence and thus responds to the law rather than to individual politicians.

The merit system mechanisms that support bureaucrats’ compliance and protect them against undue day-to-day political influence are vulnerable to performance-enhancing reforms. Any attempt to cut through the red tape necessarily brought about by the probity-enhancing merit civil service rules brings the danger of weakening the credible commitment of politicians to refrain from interference in day-to-day policy implementation and divert benefits to some constituents rather than deliver them without favor to all those who had been promised these benefits. Therein lies the danger of the ‘New Public Management’ reforms (Hood 1991) that particularly the Anglo-Saxon parliamentary democracies have carried very far. Among other things, these reforms stress a significant reduction in formal procedures. In his refutation of Osborne and Gaebler (1992), Jordan (1994) stresses the rationale for these sometimes burdensome

rules prevalent across Western bureaucracies: “The old fashioned rules and procedures that are criticized in the book were not invented to inhibit entrepreneurial activity but were seen as a price to pay to inhibit malpractice” (274). Considering the possibility of reckless behavior by public managers who want to be entrepreneurial, he argues that “the disadvantages of cautious, predictable, ordered administration may be more widely acceptable than the disadvantages of a more creative and risky style” (275). Du Gay (2008) similarly dissects British reforms that tried to encourage more responsiveness and zeal for particular policies amongst senior civil servants but have also weakened their ability to function as providers of credibility for the state. There is a parallel between the probity-enhancing hidden values of the often-maligned rules and regulations in administration and the value of due process in criminal proceedings. Bork (1993) presents an excerpt from *A Man for All Seasons*, Robert Bolt’s play about Thomas More. The excerpt could also apply to the quest for performance in government that might endanger probity and thereby lead to a loss of citizen confidence:

More: [...] What would you do? Cut a great road through the law to get after the Devil?

Roper: I’d cut down every law in England to do that!

More: ... Oh? ... And when the last law was down, and the Devil turned round on you—where would you hide, Roper, the laws all being flat? ... This country’s planted thick with laws from coast to coast—man’s laws, not God’s—and if you cut them down— ... d’you really think you could stand upright in the

winds that would blow then? ... Yes, I'd give the Devil benefit of law, for my own safety's sake.

(Bork 1993, 515).

There are costs to losing some of the rigidity of an old-fashioned merit civil service bureaucracy, which enabled the credible commitment. It is far from clear that a bureaucracy bound only by mission statements and the requirement to achieve targets specified by the elected government of the day can preserve it in the same way that a good old rigid merit civil service can.

As an example, in the 1980s the British government split executive functions away from central departments into subordinate executive agencies. It gave greater managerial freedoms to the heads (chief executives) of these agencies. They are held responsible for achieving a series of performance targets, with their pay partially depending on target achievement. Yet, as the Soviet experience shows, any target can be 'gamed' to some extent, and there is also evidence of gaming in the British administration (Hood 2006). Indeed, the Committee on Standards in Public Life that Prime Minister Major established in 1994 was concerned that pay linked to target achievement in the executive agencies might endanger the political impartiality of the civil service and undermine the value of neutral competence (Barberis 1996, 18).

Apart from compliance, the other necessary element for a merit civil service to work as a commitment device is selection. Since incentives leading to full or even

sufficient compliance would be prohibitively costly⁷, the personnel selection mechanism takes on a crucial role since it helps to recruit people with public service motivation and thus lowers the costs inherent in having to provide incentives for sufficient compliance. In the limiting case of *high-reliability organizations* (LaPorte and Consolini 1991) such as air traffic control and the management of nuclear power this becomes particularly important, as failure would be prohibitively costly and therefore intrinsically motivated employees are crucial. The safe storage of lethal nuclear waste over many generations is probably the most difficult challenge for organizational design. Continued selection and socialization of intrinsically motivated guardians of the waste storage sites will be essential because the challenge is

to so motivate reasonably able people that they will remember (through 7 or 8 work generations or more, covering some 250 years—and possibly a good deal longer) why they should be watchful over a system that seems not to fail, is so routinized and automated as to evoke ennui, yet demands the ability to recognize instantly the first signs of error onset, accommodate to such warning and, if necessary, endanger one's life to mitigate the consequences of error (LaPorte 1981, 37).

This challenge requires the same strength of intrinsic motivation found amongst the true believers within priesthoods.

⁷ See Miller and Whitford (2002) for a theoretical and experimental demonstration of the downside of relying exclusively on incentives; they also provide specific examples of the very high cost of relying on incentives alone in schools and police departments (238).

Unfortunately, the same public personnel selection systems that find civil servants with intrinsic public service motivation do not necessarily encourage maximum performance.⁸ In an attempt to alter this, proponents of the New Public Management stressed reductions in rules in order to make public administration more business-like. Yet it is these often cumbersome rules that allow the credible commitment to work. If they go, as the more radical implementations of the New Public Management suggest, so does the credible commitment. The ‘trough’ becomes more easily accessible once again. New Public Management can also crowd out public service motivation and thus make administration harder to control, as Bertelli and Lynn (2006, 162-163) point out, drawing on Bruno Frey’s work, who argues theoretically and based on experiments and observational studies that people’s intrinsic motivations tend to be washed away by sufficiently large financial incentives (in particular, see Frey 1997; Frey and Jegen 2001).

It is now time to examine the mechanism by which politicians can come to agree to create and maintain a merit civil service.

A stark evolutionary model of merit civil service reform and survival

In this section I argue that politicians are involved in a prisoners’ dilemma in their decision over whether or not to introduce and maintain a merit civil service. I then present the essential properties of the indefinitely iterated prisoners’ dilemma and argue

⁸ More precisely, in terms of the typology of “four types of officers” often attributed to the German General von Manstein, the greatest danger is that “hard-working and stupid” people are recruited, who score highly on intrinsic public service motivation and enjoy working hard but whose efforts often result in suboptimal outcomes. This is contrary to the stereotype, particularly prominent in the United States, of ‘lazy bureaucrats.’

that the repeated interaction of political parties makes the adoption and maintenance of merit civil services possible but not inevitable. Using this stark but helpful model I show that: (i) merit civil service reform is less likely to occur without party organization; (ii) merit civil service reform is a possible but not a necessary consequence of repeated interactions of organized parties; (iii) the politician lock-out produced by a merit civil service is never definite and may fall apart even if it has been in place for a very long time; and (iv) delegation to merit civil servants by itself can never insulate policies and any claim to the contrary is spurious. I support all these propositions with existing literature.

In the prisoners' dilemma there are two parties, *A* and *B*. Each party can either support a merit civil service system that restricts their control over the details of policy implementation or retain full political control over how public funds are distributed. They have symmetrical preferences: They prefer (i) to have full control over the details of the distribution of public funds while the other party refrains from it to (ii) jointly supporting a merit civil service and thus refraining from full control over the details of how public funds are distributed to (iii) jointly having full control over the details of the distribution of public funds to (iv) supporting a merit civil service while the other party has full control over the details of the distribution of public funds. The rationale for these preferences is that while the parties both would be better off with a merit civil service in place than without one (for the reasons discussed above), individual politicians would be even better off if they could divert public funds into their and their supporters' pockets while their opponents would remain pure and full of probity but sooner or later

deprived of sufficient electoral support. The reason is that without a merit civil service that diminishes favoritism, those who could provide benefits would have more appeal. The latter is an insight from Geddes's (1994) model. With a groundbreaking argument, Geddes (1994) reshaped the scholarly understanding of why administrative reform is slow or absent in many less prosperous countries. Instead of theorizing about sinister external forces, Geddes (1994) showed that politicians lack incentives for initiating reform even if they realize they would be better off if they did. The reason for the persistence of low-capacity, easily manipulated administration is that any given politician stands to gain crucial votes by distributing access to government jobs. The approach I adopt here, to model the interaction between the parties as a prisoners' dilemma is different from Geddes's (1994, chapter 4). Her model is constant-sum: what one party gains, the other loses. On the other hand, a prisoners' dilemma is variable-sum: if both parties cooperate, they can both be better off. Unfortunately, in any prisoners' dilemma where the parties do not carry on interacting into the indefinite future, cooperation is always dominated by defection even though both parties are worse off. I briefly review this using Figure 6.

Figure 6: The prisoners’ dilemma

		<i>B</i>	
		Support merit civil service	Do not support merit civil service
<i>A</i>	Support merit civil service	R, R	S, <u>T</u>
	Do not support merit civil service	<u>T</u> , S	<u>P</u> , <u>P</u>

As discussed above, the preferences of both A and B are as follows:

T “temptation”: to have full control over the details of the distribution of public funds while the other party refrains from it

is strictly preferred to

R “reward”: to support a merit civil service and thus refraining from full control over the details of how public funds are distributed while the other party does the same

is strictly preferred to

P “punishment”: to have full control over the details of the distribution of public funds while the other party does likewise

is strictly preferred to

S “sucker”: to support a merit civil service while the other party has full control over the details of the distribution of public funds.

This implies that if this game is played only a finite number of times, the strategy “support the merit civil service” is strictly dominated by the strategy “do not support the merit civil service” for both A and B and the outcome will be continued politician access to the ‘trough.’

Only when the game is continuously repeated without a known end to the repetitions can any other outcome result. When the game is played for an indefinite number of repetitions, the players’ strategies are more complicated to specify. In the iterated prisoners’ dilemma, three strategies are of particular interest: (i) Always D, i.e. never support the introduction or maintenance of a merit civil service; (ii) Tit for Tat, i.e.

start with refraining from diverting public funds to narrow factions and then do what the other party did in the previous period; and (iii) Grim Trigger, i.e. start with refraining from diverting public funds to narrow factions and continue to do so unless the other party accesses the ‘trough’ once; if that occurs, recover and retain full control over the details of the distribution of public funds into eternity.⁹ Only Tit for Tat and Grim Trigger allow for benefits from cooperation and only Tit for Tat allows for a return to cooperation after a temporary defection by the other player. Axelrod (1984) used a number of computer tournaments to show the possibility of cooperation in the iterated prisoners’ dilemma. He took the strategies submitted for the second tournament and let them compete against each other in a simulated evolutionary environment. One of his main lessons was that if the players do not discount the future too much, Tit for Tat will outperform other strategies. This lesson has been widely adopted in political science. Unfortunately, it is based on shaky foundations. Axelrod’s (1984) simulation excluded the strategy Always D. Had it been included, it would have been possible to observe Always D become dominant in a large proportion of runs (see Osborne 1994, 439-41 for a review of these newer results). After this brief discussion of the properties of the iterated prisoner’s dilemma, I now introduce a number of propositions that it suggests about politicians’ usage of merit civil services as commitment devices.

First, consider the absolute requirement that there be no known end to the interactions between the players. If there was, all cooperation would unravel and the

⁹ While it may be difficult for a party currently in the opposition that is cheated in this way to ever regain a majority, exogenous shocks do occur and they often have a propensity to end the grip on power of even very strong parties.

players would be stuck with defection in every period. In other words, if individual politicians are the only actors, then each of them strictly speaking only has a finite number of interactions with the others and there is a certainty that they will end within a few decades at most. On the other hand, political parties tend to outlive their individual member politicians, at least where the party system is not too volatile. As managed organizations, parties can, to some extent induce their members to act as if they had an indefinite life span. The collapse of an old party does not affect this if another party absorbs the members of the collapsing one. This is even true in the United States with its weak parties. This leads to my first proposition:

Proposition 1: Merit civil service reform is less likely to occur without party organization.

The British example provides some support for this assertion: Party leadership gained in strength in the decades before the British civil service was established (Silberman 1993). The importance of parties is partly endogenous to the electoral rules in place. In particular, systems where parties have control over who gets nominated as a district candidate or added to a party list afford the party leadership far more tools to manage their organization than systems where candidates gain the party label through open competition, such as in most American states, or party lists are open, such as for instance in Ecuador (Payne et al. 2002; for the theoretical argument, see Carey and Shugart 1995).

The second proposition that follows from describing politicians' interactions as iterated prisoners' dilemma is a consequence of the so-called folk theorems, which state

that in iterated games, any outcome is feasible as long as under that outcome all players at least minimize their maximum loss. Therefore the second proposition is:

Proposition 2: Merit civil service reform is a possible but not a necessary consequence of repeated interactions of organized parties.

As I have argued using the iterated prisoners' dilemma, it is not inevitable that political parties will come to cooperate to develop a merit civil service that limits the ability of politicians to decide details of policy implementation and thus potentially divert funds into their own and their friends and supporters' pockets. There is a lot of evidence to support the proposition that several countries with well-developed merit civil services stumbled into this arrangement with limited foresight rather than having it rationally planned out. Among the best collections of such evidence is Silberman (1993). In an epic study, he compares the development of the merit civil services in France and Japan, on the one hand, and the United States and Britain, on the other. Using a large amount of historical documents, he argues that the introduction of merit civil services in all cases was an attempt by the rulers or elected politicians to reduce uncertainty about what would happen to them in the future, with the threats of revolution or at least widespread popular discontent in their minds. Silberman (1993) argues that France and Japan, where rulers faced very high uncertainty about their future, developed particularly rigid systems that required individuals to commit early on to an administrative career. This focus on the civil service as an organization requires little reliance on regulation outside of the civil service. In the terms of my discussions of the two elements of credible commitment by merit civil services, this arrangement is high on compliance. The United

States and Great Britain, on the other hand, already had relatively stable societies and the threat of violent revolution was more remote. Also, politicians faced a large number of private organizations that could provide self-regulation. The civil services that developed in both countries consequently do not require individuals to commit early on to an administrative career. In Great Britain the civil service was set up to seek generalists, thus limiting access to the well-off who could engage in this character-building exercise, while in the United States the civil service was made very accessible at different levels. The crucial difference that differentiates both of these systems from the French or Japanese (or Prussian) model is that the former do not require individuals to commit their lives to an administrative career. Silberman (1993) stresses that in none of these cases had rulers and politicians access to well-developed, theory-based recommendations of what a civil service should look like and what its effect would be. For example, in Britain the civil service was not recognizable as such until the late nineteenth century. While the Northcote-Trevelyan report of 1854 is often credited with introducing the system (for instance, see Horn 1995), in reality rather little happened for almost two decades after the report other than the creation of a certifying agency that mostly rubber-stamped patronage appointments (Silberman 1993, 350-62, 365). Yet the Reform Act of 1867 doubled the electorate and made continued satisfactory use of the patronage increasingly infeasible because government employment could not grow at this rate. Only then did party leaders push for serious administrative reform (Silberman 1993, 391). With the Orders in Council of June 4, 1870 and August 19, 1871, the merit civil service took shape. All but the lowest administrative posts now required

examinations and the parties had increased their credibility in front of the enlarged electorate that could no longer accuse them of favoring the aristocracy or other friends and supporters because now recruitment was based on ‘merit.’ A side effect of the end to patronage (the remaining low-level posts were removed from patronage at the end of the nineteenth century) was that party leaders now had removed a crucial means by which backbenchers retained their independence. The “efficient secret”—the domination of Parliament by the Cabinet (Bagehot 1963)—had largely come into being. Yet none of the British civil service was strategically well-planned; rather it came into being as politicians reacted to the repercussions of other decisions they had made or had been forced to make by popular demands. Similarly, it has been argued that the United States civil service that grew out of the Pendleton Act of early 1883 was largely an accident of history, as the Republicans tried to lock in some of their supporters in government jobs after they had lost their majority in Congress in the 1882 mid-term elections and expected that the next president would be a Democrat (Van Riper 1958, 94). Nevertheless, even merit civil services that come into being in an attempt to lock in party loyalists tend to develop the ability to provide a credible commitment over time for two reasons: (i) the rules that locked in party loyalists at the same time also protect them and free them from the direct influence of their old party masters; and (ii) the rules now governing recruitment and retention over time will reduce the influence of any remaining strong party loyalists, as future hires are selected on merit criteria.

Yet not only is it partly dependent on happenstance whether or not politicians will agree to use a merit civil service to lock themselves out from the details of how

public funds are distributed but such lock-out is never perfect. Generally, merit civil services are products of legislation, which can in principle be overturned. This means that a merit civil service always remains a potentially revocable commitment device, as discussed above. In terms of the iterated prisoners' dilemma, this would consist in one of the parties switching to *D*. If the other party plays Tit for Tat or Grim Trigger, it will also switch to *D* in the next period. The merit civil service and the credible commitment it might have provided are history. An example exists in Argentina, where a merit system was introduced but only one cohort was hired under its provisions.

Subsequently, the federal government returned to largely relying on contract employees (Ferraro 2006). Yet in principle this is not only a danger where a merit civil service is new. For instance, in 1996 the Georgia state legislature abolished merit system protections for anyone hired into state civil service positions. Based on findings from their survey of Georgia civil servants in 2000, Nigro and Kellough (2006) suggest that while traditional patronage and political influence on day-to-day details of policy implementation have not (yet) returned, neither has the stated aim of the reform—increases in government performance—been achieved. Proposition 3 summarizes the conjecture about the potential fragility of merit civil services.

Proposition 3: The politician lock-out produced by a merit civil service is never definite and may fall apart even if it has been in place for a very long time.

Proposition 3 has an interesting empirical implication that can be tested, at least in principle: If it is correct, the hazard of merit system failure remains constant (after controlling for confounders) over time. In other words, the proposition suggests that the

likelihood of a merit system being terminated in year t given it has not been terminated up to that point does not diminish. For this dissertation I do not have the time or resources to engage in the necessary data collection but it might be interesting to study this in the future. The most feasible venue would be the U.S. states, since a number of them, in particular Georgia (Nigro and Kellough 2006) and Florida (Bowman, West, and Gertz 2006) have already abolished merit system protections. Also in future research, it will be interesting to examine the development of public perceptions of state bureaucracy after these changes.

The point that merit civil services are at best a revocable commitment device has a much broader implication. In their discussion of how policies might be locked in, i.e. kept running even if their supporters lose the next election, Posner and Vermeule (2002, 1705) include delegation to agencies. Horn and Shepsle (1989), McCubbins, Noll, and Weingast (1989), Moe and Caldwell (1994), and Horn (1995) suggest likewise. In addition, a substantial literature on central bank independence has developed that is based on the assumption that this delegation works *per fiat* (for instance, see Alesina, Mirrlees, and Neumann 1989; Bernhard and Leblang 2002; and Grilli, Masciandaro, and Tabellini 1994). The Federal Reserve Board is often cited as a prominent example of such policy lock-in. In its case, the policy would be low inflation. This leads to the impression that delegation to civil servants operating under merit rules might serve to commit to a specific policy rather than simply to a degree of probity and impartiality in applying legislation, regardless of its content. If one delegated to civil servants with

policy preferences such as low inflation or protection of the environment, one might insulate that policy against future political adversity. As Kemp (1996) suggests,

Bureaucracies are ‘built safe’—like good motor cars they veer back to the middle of the road if people try to change their course. In a democracy people tend to want more rather than less stability and changelessness in their civil service, because they know that the power that comes from free elections can be dangerous (211).

Does this make any sense? In the iterated prisoners’ dilemma, a merit civil service is the fruit of cooperation between parties, where both stand to benefit from a credible commitment. To underline this once more, all parties stand to gain from politician lock-out. On the other hand, many specific policies are preferred by some parties and opposed by others. To lock them in would require not only to lock out politicians but also to somehow bind future legislators. Yet what are civil services but products of legislation? It therefore makes little sense to expect them to bind future politicians to accept policies that they dislike. It is not sufficient to suggest that creating an independent agency in and of itself will also create a strong enough constituency that will force future politicians to live with a policy that they dislike, because rarely is such a constituency large enough. Proposition 4 summarizes this insight:

Proposition 4: Delegation to merit civil servants by itself can never fully insulate policies and any claim to the contrary is spurious.

It is necessary to investigate this proposition a bit more because policy insulation has received a lot of attention and is frequently assumed to work, especially in the case of

central bank independence (for an example, see Glazer and Lohmann 1999). As just mentioned, merit civil services are the product of legislation. Yet as Schelling (2006) points out, “[p]eriodic free elections make pledges transient—never to impose price controls, never to run large budget deficits” (17). Policy lock-in would be just such a pledge to one’s supporters, namely that a policy would go on regardless of who would be in power in future years. To see when such lock-in works and when it does not work, it is helpful to contrast various methods that have been suggested. They include

setting up agencies and commissions, drafting legislation in ways that make repeal especially visible, inserting procedures that alert interested parties to potential amendments, committing the government to contracts, engaging in deficit spending, restricting opportunities for debate in legislatures, modifying the voting rules, and even ingeniously manipulating labels (as Roosevelt was said to do, when he called his social security program, which was a simple tax-and-transfer system, a pension plan).

(Posner and Vermeule 2002, 1705).

First, there is delegation to agencies (such as central banks). As Franzese (1999) stresses, the policy-making authority of any central bank “derives from statutes or constitutional provisions, either of which the political authority can change if the bank’s policies were to become sufficiently distasteful” (682). Generally, at least in the United States, politicians do not often use delegation to independent agencies for the purpose of policy lock-in (de Figueiredo 2002, 329). If durability of policy was important to politicians and policy lock-in through delegation works, then there would a puzzle in

why politicians do not choose this option more often. De Figueiredo (2002) uses a model centered on the indefinitely repeated interaction of two interest groups to answer this question. His solution for the puzzle is that policy insulation is costly and thus only worthwhile for interest groups that only very infrequently enjoy a large representation in the elected bodies. He calls these unusual episodes “the moments in the sun” of these interest groups.

Costa Rica appears to present a counterpoint, or at least an interesting anomaly. Jiménez Castro (1986) describes the history of autonomous agencies in that country. In Costa Rica, policy lock-in by delegating to autonomous agencies used to be prevalent. This went so far as that the autonomous agencies did most of the policy-making in certain areas. At the end of Costa Rica’s bloody civil war in 1949, the warring factions managed to achieve a settlement that allowed the country to become a democracy. Further, they committed against crushing their opponents in the future by agreeing to abolish the army. In the post-civil war settlement, the Social Democrats managed to include a provision for autonomous agencies in the constitution. Not only did this constrain the president (Jiménez Castro 1986, 148), an overtly powerful figure throughout much of Latin American history, but it also allowed these agencies to keep a number of social policies going even when the Social Democrats were out of power. The major opposition parties in turn also came to appreciate this method for their policies. Jiménez Castro (1986, 127) describes how these agencies fully used their powers by making strategic policy decisions against the will of the majority in the legislature and the president. The only parallel to that in the United States might be the

Supreme Court.¹⁰ The autonomous agencies have lost some of their force since new legislation was passed in 1974 (and even more beginning with the Unity party's rule in 1978). The legislation reins these agencies in by adjusting appointment powers: Now the president appoints part of each agency's board (Jiménez Castro 1986). Nevertheless, it has been suggested that even these members do not necessarily follow the president's policy position and that therefore the agencies still insulate some policies, though not as strongly as before 1974 (Taylor 1995, 1073). The most interesting aspect of the Costa Rican anomaly is that a large number of autonomous agencies thrived for decades. This must imply that in Costa Rica legislation was much more binding than in most other Latin American countries, certainly at the time, and that Costa Rican elected officials were bound by the law. This in turn might be due to the fact that the legislature was relatively strong compared to other Latin American countries at the time. As the Costa Rican president has no decree power, only a package veto that can be overridden with a two-thirds majority in the legislature, no provision for dissolving it, and of course no recourse to the military, it is apparent how this worked. Yet it remains somewhat puzzling that legislators would want to engage in this lock-in. It has been suggested that the Social Democrats wanted to use their "moment in the sun" (de Figueiredo 2002) to lock in their social reform policies, expecting that they would otherwise be completely undone in the future. This helped their supporters accept the post-civil war settlement and accept democracy. The other parties also learned to appreciate this mechanism for

¹⁰ The evidence on the responsiveness of the Supreme Court to popular opinion is mixed; Mishler and Sheehan (1993) find evidence of a countermajoritarian Court in the 1980s while Flemming and Wood (1997) do not.

other policy areas, also making it easier for them to accept the democratic settlement, and so for a long time no coalition could form to undo this constitutional provision. The jury is still out on the exact reasons for the Costa Rican anomaly. Yet to place it into a better context, it is helpful to compare delegation to independent agencies to other mechanisms for locking in policy.

Governments of countries that honor their debts might sometimes be able to tie the hands of their successors by accumulating significant amounts of debt, as Alesina and Tabellini (1990) argue theoretically (see also Persson and Svensson 1989). The successors of the debt-incurring government will be forced to pay interest for policy output produced by their predecessors and will thus have less funds available to spend on policies that their predecessors disapprove of. This pattern should be stronger where there are large policy differences between parties, where the risk of losing the next election is high, and where the citizenry is rather hostile to cuts in public spending (Alesina and Tabellini 1990, 404). The empirical validity of this argument is unknown. A related but distinct argument from U.S. politics—the idea that by accumulating debt citizens will demand cuts in the size of government—is empirically false. Jones and Williams (2008) show that predictions from this “Starve-the-beast” theory are refuted by data from the United States over the past few decades. In particular, the “Starve-the-beast” hypotheses that increases in the budget deficit following tax cuts will produce an increase in the fiscal conservativeness of the electorate and consequently lead to a reduction in the size of government (52) predict exactly the opposite of what did happen. Top marginal tax rates have been *positively* correlated with the electorate’s fiscal

conservatism (72-9), as measured by Stimson's (1999) "Public Mood" indicator, and *negatively* correlated with the size of government relative to GDP (79-81). Jones and Williams (2008) suggest that government is akin to a normal good—as it gets 'cheaper' in terms of tax rates, the electorate's demand for it increases (45-8, 82). In the end, while it is now apparent that debt does not work as a means to lock in small government, it remains unclear whether debt can lock in one set of spending policies over another.

The final method of locking in policies, on the other hand, is very effective in a wide variety of contexts. This method is the use of entrenching statutes—that is, legislation containing additional conditions about the way it may be amended or repealed (Posner and Vermeule 2002, 1667). The most prominent set of entrenching statutes are written constitutions that require supermajorities in order to be amended. Prominent examples are the United States Constitution and the German Basic Law. The American Constitution overall poses the highest hurdles for amendments of any constitution in contemporary democracies (Levinson 2006). Any policy that is guaranteed by a constitutional article or amendment in either country is locked in very well. This was precisely the reason why the supporters of temperance pushed the Eighteenth Amendment. In addition to written constitutions, one may also consider European Union law to form a body of entrenching statutes (for instance, see Posner and Vermeule 2002, 1701). European Union law is superior to national law in all member states, and if a national legislature were to pass a statute that violated European Union law, this statute would be considered invalid (Nugent 2003). Of course, apart from multilateral action to amend or repeal European Union directives and regulations, over

which any single national legislature has only limited influence, it still has the ‘nuclear’ option of unilaterally repealing an undesirable European Union law by voting to leave the European Union. While the legal status of this option is questionable, as the European Union treaties do not contain an exit clause (Nugent 2003), it is very hard to imagine that a country choosing to leave the Union would or could be kept in by force. Yet the economic consequences of such a decision can be considered so high that in practice European national legislatures have their hands tied quite well by European Union law. Indeed, proponents of admitting Turkey into the European Union often implicitly suggest that this step would entrench democracy and a catalog of human rights in Turkey (for instance, see Gillespie and Whitehead 2002).

Having considered three mechanisms of policy lock-in—delegation to independent agencies, government debt, and entrenching statutes—it is helpful to compare them in terms of their effectiveness. In countries with few veto points, such as Westminster systems, when the government of the day wants to change a policy, it will succeed, whereas the governments of the day in countries with many veto points often fail at the task. The latter category includes presidential systems or bicameral parliamentary democracies with judicial review (Tsebelis 2002). The European Union clearly also falls into the latter category. Once veto points are taken into account, central bank independence as an empirical fact becomes more questionable. For instance, the much commented upon operational independence of the Bank of England that the New Labour government introduced in 1997 is nothing more than an executive decision. Should any government not see it in their interest any longer, it could repeal it without

even a debate. Clearly then the argument that Labour tied its hand on inflation and thereby removed the issue from electoral contests (Bravo and McLean 2007) is questionable. On the other hand, independent agencies in the United States are protected by statute. Generally, it is harder to pass legislation in the United States than anywhere else because of the high number of veto players, which include the pivotal sixtieth senator necessary to avoid a filibuster (Krehbiel 1998) and the president. Of course, this is only because neither the president nor the majority leader have much control over ‘their’ party, compared to most other advanced democracies. Therefore, anything that is protected by legislation in the United States, and also in those areas in Germany where the consent of both chambers of the parliament is required, is protected quite well. This is the main reason behind lock-in through delegation. While the mechanics of this lock-in have been elaborated on in detail (see especially McCubbins, Noll, and Weingast 1989), they make policy sticky by and large only because it is hard to pass legislation in the United States. Therefore, this is not about delegation but about lawmaking. It is obvious that the mechanism described in McCubbins, Noll, and Weingast (1989) could never work in a Westminster system (de Figueiredo 2002). There is nothing intrinsic about delegation that makes policies run “on autopilot”. Indeed such a claim would be spurious because it is the American system of checks and balances that makes it work. Similarly, checks and balances and a constitutional guarantee protect Costa Rica’s autonomous agencies. More generally, delegation ‘creates’ lock-in only if the legislation it is based on is hard to repeal. After years of confusion in the literature, Keefer and Stasavage (2003) finally brought this point to attention and started undermining the

widespread belief in central bank independence per fiat. In particular, it is important to highlight that the U.S. Federal Reserve's legal independence is limited and depends significantly on its reputation and the skill of its chairman in overcoming influence by both the president and the Congress. The Fed's anti-inflationary stance only began with Chairman Paul Volcker and it is due to his political skill in combination with an absence of credible alternative policy suggestions that this stance could be consolidated (Kettl 1986).

As an example of how important the ease or difficulty of passing legislation is to creating commitments, consider that proposition 3 is also affected by the number of veto points. As the merit civil services of many countries, including the United Kingdom, the United States, and the new service of Mexico (the topic of chapter III) are established by simple legislation, the continuation of the credible commitment by politicians not to manipulate the fine details of the distribution of public funds depends on their continued cooperation in not reforming the legislation. Of course, this would be much harder technically in the United States at the federal level than in the United Kingdom. Maintenance of credible commitments in the latter (and countries with similarly low numbers of veto players) consequently also depends to a degree on the value politicians place on the reputation gained for honoring their commitments.

Entrenching statutes provide the strongest policy lock-in. For instance, the Bundesbank could be considered the most independent national central bank because it was created by Article 88 of the Basic Law, which even included a mandate for maintaining price stability. This is not the case for the Federal Reserve. On the other

hand, the European Central Bank, which is responsible for the monetary supply in the Euro zone, also has a mandate for price stability. With this mandate, which is even stronger than the Bundesbank's, and the difficulty of amending European Union law that I discussed earlier, it can indeed be said that the Bundesbank's spirit lives on in the European Central Bank.

Finally, note that the German civil service at least in theory provides a much stronger credible commitment than its counterparts in many countries, because Section 5 of Article 33 of the German Basic Law literally prescribes that "The law governing the public service shall be regulated *with due regard to the traditional principles of the professional civil service*" (emphasis added). Yet the service's ability to provide this commitment is weakened in another way: German civil servants need not leave the service but only take a leave of absence if they decide to become politicians (Beucker and Überall 2004). Therefore it is harder to distinguish between politicians and bureaucrats in Germany than in many other countries, except Japan.

In conclusion, as long as politicians are willing to continue to cooperate, merit civil services allow them to credibly commit to lock themselves out from the details of policy implementation. Yet delegation to merit civil servants does not lock in policies.

Outlook: empirically investigating credible commitment

Now I outline how I test some aspects of the propositions discussed in this chapter against the cases of the Mexican federal government and English and Welsh local governments. They are the topics of chapters III and IV. In chapter III, I examine the

development and implementation of the new merit civil service in the Mexican federal government. This case allows me to illustrate the iterated game between parties and the precariousness of a young service, as suggested by proposition 3. Also it allows me to somewhat test the importance of party organization by briefly comparing the relatively successful introduction of a legislative merit civil service in the Senate and its unsuccessful counterpart in the Chamber of Deputies. In chapter IV, I indirectly test the assumption that merit civil servants create stability against data on English and Welsh local governments in the 1950s and 1960s. This is a theoretically interesting context because on the one hand there were large policy differences between the major parties and the only elected bodies in English and Welsh local governments, the councils, changed party control in many cases. Both of these factors would predict significant and fairly swift policy change following a change in party control. On the other hand, in English and Welsh local governments appointed officials operating under merit system rules were responsible for drafting the budget and consequently be involved in policy formulation. By testing whether political party change in this context is related to changes in policy outputs, controlling for inertia, I probe the assumption that appointed officials maintain policies.

CHAPTER III

A CREDIBLE COMMITMENT TO NEUTRAL COMPETENCE? AN INVESTIGATION INTO MEXICO'S NEW FEDERAL MERIT CIVIL SERVICE

This chapter contains a case study of Mexico's attempt to introduce a merit civil service in its federal public administration, in order to illustrate the theoretical argument about merit civil services as credible commitment devices for politicians developed in chapter II. The case study is drawn up as an analytic narrative (Bates et al. 1998), illustrating and evaluating (i) a situation where politicians face a severe credibility problem (the motivation for the theoretical argument); (ii) the development of party cooperation leading up to the passage of the federal merit civil service law in 2003 and in its implementation (the necessary requirement for the development and maintenance of a merit system as a commitment device, as presented in the theoretical argument); and (iii) the precariousness of a young service (owing to its dependence on continued cooperation between parties, as shown in the theoretical argument).

Mexico is a very useful case for illustrating and evaluating the credible commitment argument about merit civil services from chapter II because a lot of the argument concerns the genesis of a merit civil service. Mexico never had a comprehensive merit civil service but has recently begun introducing one. Therefore, processes that lie more than a hundred years in the past in Europe and North America can be observed now, before the selective editing of history takes place. Certainly, Mexico is an unusual case in that only over the last two decades have elections become

competitive. Yet as I will show below this only exacerbates politicians' credibility problem and consequently the theoretical argument from chapter II can be illustrated particularly well. Also, while the recency of Mexico's merit reform does not allow for firm conclusions about the likely fate of the new service, a major focus of the theoretical argument is on the introduction and initial development of a merit civil service, which can be examined very well in the Mexican case.

The chapter is laid out as follows: after a brief review of Mexico's political development that shows how past events and choices constrain today's politicians and a discussion of their severe credibility problem, I examine the development of Mexico's federal bureaucracy over time to place the merit civil service reform and its peculiarities into context. Then I (i) draw on published academic work, secondary materials, my own elite interviews, and personnel data to examine the role of the iterated game between parties in the process leading up to the passage of the federal merit civil service law in 2003 and in its implementation; (ii) use published academic work and my own elite interviews to illustrate the precariousness of the young service; and finally (iii) use published academic work, secondary materials, and my own elite interviews to compare the success of the two separate merit systems of the two chambers of the Mexican congress (these are unaffiliated with the new merit civil service of the federal public administration—each chamber has their own merit system for legislative staff) and evaluate how important party organization is in order to further probe the theoretical argument from chapter II about the need for party cooperation in the development and maintenance of a merit civil service.

I gathered most of the materials for this chapter during a three-week visit to Mexico City in November 2007. During this time I also conducted semi-structured elite interviews in the Public Function Department, the Chamber of Deputies, and the Senate. Cognizant of my limitations in time, local knowledge, and local recognition, I employed a variant of snowball sampling (Goodman 1961) in selecting my interviewees. First, I obtained access to a senior official in the Public Function Department through Professor David Arellano Gault at the national social sciences research institution CIDE. The senior official then referred me to a technical secretary in the Chamber of Deputies, whom I interviewed and who referred me to further contacts in the Chamber and in the Senate. I conducted a total of ten elite interviews. Furthermore, since I triangulate the information gained in the interviews with published academic work mostly from Mexico, secondary materials such as departmental publications, and personnel data, any biases introduced by the selection of interviewees and their choices of what to reveal can be expected not to affect my conclusions strongly.

Having discussed the sources of my data for this chapter, I now briefly review those past events and choices in Mexico's political history whose legacy still constrain today's politicians.

Enduring legacies of Mexico's history—causes of distrust and constraints on reform

A number of legacies from Mexico's history continue to affect its politics and administration to this day and both contribute to the credibility problem of Mexico's politicians and constrain their reform efforts. There is a significant degree of path dependence in Mexican politics. This idea means that at a number of critical junctures, yesterday's political actors made choices that still affect today's politicians, because they are affected by the interests generated by these past choices (Collier and Collier 1991, 29-39). I briefly introduce the choices made by past politicians that create a severe credibility problem for Mexico's current politicians. Then I proceed to review the development of the country's bureaucracy.

The legacies of the Spanish conquest shape Mexican politics to this day, and two of them are relevant to this investigation. First, the country is ethnically mixed, whereby the majority of Mexicans (sixty percent) are mestizos, with both indigenous and Spanish ancestors, while thirty percent are of indigenous or predominantly indigenous origin¹¹, nine percent are white, and one percent are of another ethnicity (Central Intelligence Agency 2008). Ethnicity and lifetime income continue to be correlated, with whites tending to fare best, mestizos second-best, and indigenous people worst (Vigil and Lopez 2004), all this coupled with a socioeconomic mobility that is low in international comparison and even shows signs of decreasing, at least in terms of enrollment of

¹¹ Note that this figure is much higher than those reported in Mexican censuses, which tend to suggest single-digit population percentages of indigenous people. The reason is that the censuses only classify someone as indigenous if they speak an indigenous language. Yet there are many more people of indigenous ancestry who mostly or only speak Spanish (Vigil and Lopez 2004).

university students whose parents completed at most a primary education (Camp 2003, 253). Second, the Spanish left Mexico with a civil law tradition, where courts tend to be much more circumscribed than in a common law system. While there are limited exceptions (e.g. the importance of judicial review in civil-law Germany), cross-nationally courts in common-law countries play a much greater role because only there are they a formal source of law (thanks to the doctrine of *stare decisis*) and judges tend to have higher prestige because judgeships tend to be awarded after a distinguished career as an attorney. In civil-law countries, on the other hand, judges follow a career path similar to that of a civil servant, beginning with an assistant judgeship in a lower court soon after graduating (Huber and Shipan 2002, 193-4). In addition, during the seven decades of one-party rule, the president's ability to select Supreme Court judges was virtually unchecked, and from 1934-44 their terms were even limited to six years and made concurrent with the president's term (Domingo 2000, 712-3). Consequently, the one-party regime that governed Mexico for most of the 20th century was not hampered by the courts in any way and to this day they have little experience asserting their authority vis-à-vis elected officials. Only the Supreme Court has begun to occasionally challenge the executive after the changes to the constitution made in 1994 (Camp 2003, 180) that limit the president to providing a list of candidates to the Senate, which then decides on them by two-thirds majority vote (Domingo 2000, 714). Still, the judiciary's role remains limited, and lower-level courts still stand out for being clogged, prone to corruption, and open to outside political manipulation (Camp 2003, 180). Looking at their survey of a large random sample of Mexicans, Parás, Coleman, and

Seligson (2006) find that of the 13% of respondents who had to deal with a court within the year previous to the survey, 25% had to pay a bribe in their dealings with the court (78). In addition, 67.7% of respondents answered that they have little or no confidence when asked the question whether they, in case of becoming a victim of theft or assault, would trust the judicial system to punish the guilty party (82). In summary, the colonial legacies of a fairly rigid, partly ethnically-based class system and a fledgling judiciary remain brakes on Mexico's political and economic development.

Fast forward from colonial times to 1877, when the mestizo Porfirio Díaz began to rule Mexico. He would rule the country until 1880 and then again from 1884 until 1911¹², one year after the onset of the Mexican revolution. Díaz's rule (usually referred to as the *Porfiriato*) was distinguished by the themes of "order and progress" and "more administration, less politics." He was 're-elected' several times (Camp 2003, 38). The most important legacy of his rule for this investigation is the persistent fear among many Mexicans of allowing re-election for public office. Díaz's rule helped the economically backward country catch up by encouraging the construction of railroads and industry. A substantial part of the modernization was due to foreign investors whom Díaz actively encouraged to come to Mexico. However, small peasants did not share in the economic growth. On the contrary, many lost their lands and were reduced to de-facto servitude. Also, Díaz established the method that would serve the Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI) so well in the twentieth century during its seven-decade long hegemony: co-opt groups of citizens where possible, else repress

¹² During the 1880-4 period Manuel González, a close confidant of Díaz, was president (Parkes 1979, 300).

them. Díaz transformed the Congress into a rubber stamp body, a role that it would keep more or less until the end of the PRI hegemony in the second half of the 1990s (Kirkwood 2000, 119-120).

The *Porfiriato* suffered from increasing popular discontent, which would soon turn into the Mexican Revolution.¹³ In 1910 Emiliano Zapata started a rural rebellion in his home state of Morelos, demanding the return of community lands from hacienda owners to peasant villagers. At the same time, Francisco Madero founded the Anti-Reelectionist Party. The party platform advocated a prohibition on re-election (to end the *Porfiriato* for good), effective suffrage, and a constitutional reform, including general access to public education. Zapata's supporters tended to vote for Madero, who won the 1911 elections that were deemed fair. Nevertheless, since the classical liberal Madero did not respond with decisive actions to Zapata's demands for land reform, Zapata and his supporters started to rise against the new president. Madero sent in the federal army but they could not defeat Zapata and his supporters. Conservative parts of the federal army, led by General Huerta, then ousted and killed Madero in 1913. Huerta took over the government; his new government was recognized by most major powers including imperial Germany. Only Woodrow Wilson's administration refused to recognize Huerta. Zapata and his supporters remained in arms against Huerta's forces, particularly in the Southern half of the country, and they were joined by Francisco 'Pancho' Villa in the North. In 1914, after the U.S. Navy had occupied the port of Veracruz to cut off German arms and resource deliveries, Huerta stepped down and fled

¹³ The discussion of the Mexican Revolution is based on Camp (2003), Parkes (1979), and Tutino (1986).

the capital. Venustiano Carranza became the new president. A year later Zapata and Villa turned against him and ousted him. Nevertheless, Carranza managed to gain widespread popular support with a platform of land reform and social policy and was elected president in 1917. In 1920 he was assassinated by his Minister of War, General Álvaro Obregón, who took over the presidency and brought an end to the revolution by forming a large coalition of the different revolutionary forces that would later develop into the Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI) and manage to hold onto power for seven decades, using elaborations of Díaz's method of co-optation where possible and repression if co-optation did not work. It should be noted that it is likely that the party did indeed win a significant number of elections without having to resort to 'technological solutions' since it presided over decades of strong economic growth and was able to deliver benefits to large parts of the population, as I explain in the next section. In any case, the PRI is one of the main legacies of the revolution that is relevant to this investigation.

The final and probably most important legacy for this investigation stems from the aftermath of the bloody revolution: Mexico's corporatism (Camp 2003, 130-2). The generic characteristics of the notion of corporatism are:

- (1) Monopolies of interest representation exist and are important to explain political behaviour and policy outcomes.
- (2) Hierarchies emerge among associations and they may subordinate and co-ordinate the activities of whole economic sectors and/or social classes.

(3) Membership in associations is not always voluntary, and a wide range of de facto as well as de jure arrangements exist both to bind members to ‘their’ associations and to prevent the emergence of competing ones.

(4) Interest associations are not just the passive recipients of already formed member interests, but may play an active role in identifying and forming these interests.

(5) Interest associations do not merely transmit member preferences to authorities, but may actively and coercively govern the behaviour of their members, especially through devolved responsibility for the implementation of public policy.

(6) The state may not be either an arena for which interests contend or another interest group with which they must compete, but a constitutive element engaged in defining, distorting, encouraging, regulating, licensing and/or repressing the activities of associations—and backed in its efforts, at least potentially, by coercive action and claims to legitimacy.

(7) Interest associations are not always autonomous entities pressuring the state from without and seeking access wherever they can find an opportunity, but they may be at least partially heteronomous with respect to public authorities¹⁴ and can be brought through selective institutional channels into a co-responsibility for public policy formation, not to mention, again, policy implementation (Schmitter 1982, 260-261).

¹⁴ This means that they are partially controlled by public authorities.

Mexico's corporatism dates back to the years immediately after the revolution, when political leaders began to integrate large parts of society into the new state as a means of pacification. In the 1930s, the PRI created three sectors—agriculture, labor, and white-collar workers—to create a more formal appearance of representation of large parts of the population (MacDonald and Fauriol 1999, 112). Through this, corporatism then developed into a tool to support continued one-party rule, which lasted seven decades. While the hegemony of the PRI is clearly over, Mexico's corporatism remains alive and well (Personal communication with David Arellano Gault, November 13, 2007). There are two types of corporatism: societal corporatism and state corporatism (Schmitter 1974, 103). Societal corporatism is characterized by monopolies of interest representation that have developed from and are maintained by interest groups, without being imposed or directed by the government. On the other hand, state corporatism is characterized by monopolies of interest representation that have been imposed from above by the government, that are directed through governmental departments, and maintained using the force of the state (Schmitter 1974, 103-4). During one-party rule, Mexico's corporatism was a good example of state corporatism (Camp 2003, 145-8). Yet once electoral competitiveness took hold, Mexico's corporatism began to morph into a hybrid form with aspects of societal corporatism. Some of the organizations that used to be undisputed monopolies of interest representation, namely the major union federations, still maintain politically very influential positions. The most important example is the influence that the National Teachers' Union (SNTE—Sindicato Nacional de Trabajadores de la Educación) exerts on politics at the national level (Ornelas 2000,

436-7). While the other unions and union federations no longer match up to the National Teachers' Union, for the time being they still retain strong ties to the government of the day (Greer, Stevens, and Stephens 2007, 80-3). These ties, past and present, have created distrust amongst many Mexicans, which in many cases is strong enough to qualify as outright "contempt" (Greer, Stevens, and Stephens 2007, 89).

All of the legacies just introduced have contributed to a severe credibility problem for Mexico's public officials. First, the low socioeconomic mobility breeds suspicion among many that this situation is maintained by the parties in power and the bureaucracy. Second, the very limited role of the judiciary contributes to the distrust of elected officials because the checks on them are very weak. Third, President Porfirio Díaz's method of co-optation if possible and repression otherwise, subsequently adopted by the PRI during the decades of one-party rule, also contributes to distrust of elected officials, whom many suspect of being principally interested in power and of still trying to apply Díaz's method. Fourth, the *Porfiriato*'s indirect legacy of the aversion of many Mexicans to re-election continues to empower parties over legislators, disabling the "electoral connection" (Mayhew 1974) and consequently letting many doubt that their elected representatives are theirs as opposed to being representatives of a party's leadership.¹⁵ Fifth, memories of one-party rule by the PRI, which developed out of the coalition of the winners of the Mexican Revolution continue to limit Mexicans' trust in

¹⁵ One might argue that the aversion to re-election implies a belief that turnover in politicians is good, and that this belief then leads to another belief, that turnover in the bureaucracy is also good. Yet given the discussion in this section of the prevailing distrust of all officials, it is likely that the majority of Mexicans simply see the prohibition on re-election as the lesser of two evils, without any illusions that it leads to good government, however understood. Consequently it is unlikely that there is a widespread belief that a lack of permanence at the higher levels of the bureaucracy produces any good outcomes. Nevertheless, these are interesting questions for future survey research.

public officials, again because they are suspected of mainly being interested in power per se. Finally, Mexico's corporatism continues to breed distrust because of the corruption it has led to. I now examine the credibility problem of Mexico's public officials that flows from these legacies in more detail.

An acute and growing credibility problem

The large majority of Mexicans have been very suspicious of their elected officials, the political parties, and the bureaucracy. Apart from the way that the historical legacies just introduced have contributed to the distrust Mexicans have of their public officials, there are two contemporaneous factors that also fuel this distrust: (i) compared to Brazil, Chile, France, Germany, the Philippines, Spain, the United Kingdom, and the United States, Mexican department secretaries, assistant secretaries, and agency heads are extraordinarily well remunerated¹⁶, regardless of whether the comparison is made using dollars at current exchange rates, adjusted for the cost of living in the capital city, or adjusted for purchasing power parity (Carrillo and Guerrero 2003, 5-10); and (ii) there is a tendency of Mexican politicians to switch parties, sometimes even while holding office (Barrow 2007).

Mexicans' distrust covers not only politicians, parties, and the bureaucracy overall but also and in particular the police, who tend to fare no better or even worse than legislators and political parties in popular esteem (see Martínez Puón 2005, 39-40

¹⁶ A significant part of this difference is explained by the fact that high-level officials in Mexico have to provide for their own retirement income as there is no equivalent to the well-developed pension system for these posts in the advanced democracies mentioned here (Carrillo and Guerrero 2003, 10-16). Yet this is irrelevant here because the general public tend to only perceive the high remuneration received in office.

for a digest of relevant survey data). In the 2000 World Values Survey all four had less than thirty percent of respondents trusting them (Martínez Puón 2005, 39). Parás, Coleman, and Seligson (2006) find that while Mexicans on average express some degree of trust in the federal government, the Congress, and political parties, what “is worrisome about this stability in the order of trust is that the last spots are occupied by institutions that are crucial to a young Mexican democracy, such as the Congress, Supreme Court, Attorney General’s Office, and the political parties” (129). And the police receive by far the lowest level of trust in their survey, substantially below the aforementioned institutions (129).¹⁷ The bureaucracy overall fares hardly better, according to a Mexican survey (Martínez Puón 2005, 40). This is not surprising because “the culture of stealth and pretense, of opacity, of corruption and distrust created walls between the federal public administration and the citizens [La cultura del sigilo y la simulación, de la opacidad, de la corrupción y la desconfianza, fueron construyendo muros entre la APF y la ciudadanía]” (Hofmann 2006, 22). While the figures for legislators are not too different from advanced Western democracies—in the mid-1990s only about twenty-nine percent of West Germans and thirty percent of Americans expressed a great deal or quite a lot of confidence in their national legislatures (Klingemann 1999, 51), the low esteem the police in particular and government agencies in general are held in Mexico is starkly different. The difference is most striking for the police: In 1991, about seventy percent of West Germans and seventy-five percent of

¹⁷ Of course evaluations of the police, as the frontline representatives of the state par excellence (Lipsky 1980; Brehm and Gates 1997), cannot but affect citizens’ views on the rest of the bureaucracy and the institutions of government overall.

Americans expressed a great deal or quite a lot of confidence in the police (Cao 2001, 174).¹⁸

How did Mexicans' far greater distrust in bureaucrats come about? For the police, the popular distrust is grounded in innumerable bitter experiences. Parás, Coleman, and Seligson (2006) find in their 2006 survey that about 23% of Mexicans were 'asked' to pay a bribe by police within a year; this is a statistically significant increase over the figure from their 2004 survey, which was 18% (57).¹⁹ For the rest of the bureaucracy, I now provide a brief review of its development over time. The review illustrates the background to the popular lack of confidence in those known as public servants, as well as the specific constraints that the recent reforms have operated under. Both the general legacies of Mexico's history and the specific constraints that Mexico's bureaucracy operates under affect the ability of politicians to make credible commitments using the bureaucracy.

The development of Mexico's federal public administration

Until very recently, most of Mexico's federal public administration operated under a patronage system—i.e. higher-level civil servants were recruited by or with the aid of elected politicians and lower-level government employees were recruited by union

¹⁸ Both Klingemann (1999) and Cao (2001) report World Values Survey data.

¹⁹ One gets an idea of the vast scope and ingrainedness of this problem by reading Arteaga Botello and López Rivera's (2000) morbidly fascinating glimpse inside the Mexican police. It is based on covert observation: One of the authors enrolled in a police academy and subsequently served as a patrol officer without disclosing his identity. The article vividly shows a police force where extortion is the normal and expected behavior, while enforcing the law is not. Note that in the first years of the 2000s, a typical police officer in Mexico City earned only about \$4,500 per year and even had to pay some essentials such as their uniform and gasoline for the patrol car from this modest salary (Williams 2002, 89). There is no evidence that police officer salaries have greatly increased since then.

officers (Moctezuma Barragán and Roemer 2001, 116, 122). While numerous aspects of the federal public administration were changed over the years by legislation, patronage recruitment remained a constant for the large majority of positions in the federal public administration. As Barragán and Roemer (2001) vividly describe it:

If somebody is looking for an administrative, secretarial, janitorial, or elementary technical job, he/she turns to the union of the bureaucratic unit in question, and gets this labor organization to propose him/her for the position when there is a vacancy corresponding to this type of activity. On the other hand, if one is seeking an opportunity involving greater responsibility based on one's professional background or capacity, then he/she looks for someone who knows someone, with a middle or high position, and tries to inveigle him into "please" giving him a chance to occupy the position. That is to say, a good recommendation is wanted. A human resources system with these institutional mechanisms cannot be efficient, or fair (163).

Nevertheless this human resources system covered most public sector employees. It is important to expand a bit on this traditional personnel system, in particular because it has two distinct tiers, political appointees in the higher-level posts and 'base employees' in the lower-level posts. This two-tier system differs from spoils systems more familiar to Americans. These found their greatest expression in Huey Long's Louisiana, where appointments even at the lowest levels of government employment were made based on loyalty to the party machine (Holloway 1941, 348). Nowadays a good, if somewhat less extreme example of this type of spoils system is Argentina, where the purchase of votes

through low-level patronage jobs has been common even in recent times (Calvo and Murillo 2004). In Mexico, the traditional personnel system diverges in one crucial point from the type of spoils system most familiar to Americans: While the large majority of posts in the public administration, which cover lower- and some middle-level positions, are also obtained through connections (often more through union officers than elected officials), once a person has been hired as a ‘base employee’ they are tenured and can only be removed for major infractions, not because of political reasons. The salaries of ‘base employees’ might be limited²⁰ and they may not have any hopes of advancement, but their jobs are stable—political change does not translate into personnel change at the lower levels.²¹ In Mexico then, “To the victor belong the spoils” truly only holds for the higher-level positions and a relatively small percentage of lower-level positions that are not covered by ‘base employee’ protections. To be more specific, of approximately 646,000 positions in the centralized federal public administration in 2007, 61,000 higher-level positions and 72,000 lower-level positions were occupied by political appointees, while 477,000 lower-level positions were occupied by ‘base employees’ (Secretaría de la Función Pública 2007).²² While this system was designed to increase the stakes lower-level government employees held in the system (Martínez Puón 2005,

²⁰ Note that a 1997 report showed that base employees’ salaries tend to be competitive with similar positions in the private sector, which is not the case for higher-level posts in the bureaucracy (Mejía Lira 2004, 17). Teachers, the majority of whom are base employees, are considered to obtain competitive salaries. The National Teachers’ Union (SNTE—Sindicato Nacional de Trabajadores de la Educación) is the largest union in Latin America and is very influential in helping or hurting the success of a party at the polls (Ornelas 2000).

²¹ Of course, as discussed above, one party maintained control of the presidency up to 2000. Nevertheless even before 2000 there were political transitions as a new president would usually bring different policies with him. Still base employees have been untouched by political transitions, then and now.

²² Approximately 36,000 higher-level positions (about six percent of positions in the centralized federal public administration) fall under the merit system that I introduce further on in this chapter.

193-4), it is questionable whether it would have developed had Mexico not been ruled by a single party for decades. The ‘base employee’ system fits perfectly into Mexico’s corporatist tradition, however, it is not commonly considered to benefit government performance. Indeed, higher-level political appointees often carry out work that elsewhere would be done by lower-level staff because they cannot expect to get it done otherwise. This system creates and maintains a large group of ‘insiders’ invested in the status quo. The large layer of ‘base employees’ remains unaffected by the new federal merit civil service that I introduce below, which only covers a significant layer of higher-level positions (about a third of higher-level positions or six percent of all positions in the centralized federal public administration) that were until recently filled purely by political appointees.

A few federal agencies developed exceptions to this general pattern by installing limited and idiosyncratic systems of merit recruitment and promotion (Moctezuma Barragán and Roemer 2001, 125). Among them are 1,300 posts in the Foreign Service²³; 3,000 posts in the National Water Commission—merit system established in 1989 (Martínez Puón 2005, 231); 2,300 posts in the Federal Electoral Institute—merit system established in 1992 (Martínez Puón 2005, 240-1); 11,000 posts in the National Institute for Statistics, Geography, and Informatics—merit system established in 1994 (Martínez Puón 2005, 236); 1,300 posts in the Professional Agrarian Service—merit system established in 1994 (Martínez Puón 2005, 233); 400 posts in the Attorney General’s Office—merit system established in 1996 (Martínez Puón 2005, 244); and a small

²³ The federal government introduced the merit system for the Foreign Service in 1922, making it the very first in Mexico (Benton 2002, 4).

number of posts in the Tax Administration Agency—merit system established in 2001 but still fledgling (Martínez Puón 2005, 248-50).²⁴ Yet, with the exception of the army, these are small, specialized personnel systems and make up only a small fraction of the about 650,000 federal employees at the beginning of the twenty-first century (Martínez Puón 2005, 188). The large majority of posts in the federal public administration were not covered by a merit system. Indeed, Moctezuma Barragán and Roemer (2001) highlight that at the beginning of the new millennium the extent of these specialized merit systems was “still minimal with respect to the size of the public administration” (127).

How did the personnel system of political appointees and ‘base employees’ develop? To answer this question, it is helpful to briefly examine the history of Mexico’s federal public administration. Its development only began in earnest after the revolutionary war more or less came to an end in 1920, when President Álvaro Obregón managed to accommodate most of Mexican society—in particular peasants, workers, professionals, and intellectuals by co-opting all of them with stakes in the new political and economic system. A small number of wealthy families owning corporations also fared well even though they were not formally represented, while the Catholic Church was left out both informally and formally (Camp 2003, 130-53). Under Obregón, the reconstruction of the country began (Blanco 1995, 38). Also under Obregón the new constitution of 1917, written under President Venustiano Carranza, began to be

²⁴ The school teaching profession also has a professional system, albeit one heavily influenced by the national teachers’ union SNTE. Since the responsibility for educational personnel was devolved to the states in 1993, this professional system is excluded here.

implemented. The country's public administration had to be built practically from scratch, as the war had left little of the departments and agencies that were in place before it. In addition to the constitution, 1917 also saw the passage of the Public Administration Organic Law (*Ley Orgánica de la Administración Pública*) and the Law of the Departments of State (*Ley de Secretarías de Estado*). The former laid out principles of the administration to be created and the latter specified that there would be seven departments: the Department of the Interior (*Secretaría de Gobernación*), the Department of Foreign Affairs (*Secretaría de Relaciones Exteriores*), the Department of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*), the War and Marine Department (*Secretaría de Guerra y Marina*), the Agriculture Department (*Secretaría de Agricultura y Fomento*), the Transportation, Communications, and Public Works Department (*Secretaría de Comunicaciones y Obras Públicas*), and the Department of Industry, Commerce, and Work (*Secretaría de Industria, Comercio y Trabajo*) (Blanco 1995, 39). In addition, a Special Department of the Presidency (*Secretaría Particular de la Presidencia*) was created to support the president. While it was not acknowledged by legislation until 1958, it existed right from 1920 (Blanco 1995, 40). In 1921, President Obregón created the Education Department (*Secretaría de Educación Pública*—SEP) by decree. Also by decree, in 1923 President Obregón created the Department of National Statistics (*Secretaría de Estadística Nacional*). During this period of administrative development, the practice of patronage had a clear justification: secretaries and agency leaders put a high price on loyalty. There was a clear need for loyalty as different departments housed different factions that until

recently fought each other bloodily.²⁵ Whenever an administrative leader was replaced, a lot of lower-level bureaucrats were also replaced because no leader wanted to risk hostile subordinates (Blanco 1995, 40).

One of the most important dates in the development of Mexico's public administration is the foundation of the National Revolutionary Party (Partido Nacional Revolucionario—PNR) in 1929. Designed by Plutarco Elías Calles, the “supreme leader of the Revolution” (“jefe máximo de la Revolución”), the party tied together most of the former warring factions and would run the country for the next seven decades.²⁶ While Calles was president only between 1925 and 1928, his influence overshadowed that of the three official presidents for the following six years (Blanco 1995, 42). During the decade or so of Calles's formal and informal rule, there was little change in the existing structure of government; however, during this time several non-departmental commissions and state-owned banks were created. Also, in 1925 Calles's government made a first effort to improve the satisfaction of government employees by creating a retirement system for them and an agency to administer it (Blanco 1995, 43). In good corporatist fashion, Calles used the retirement system to create a stake for government employees in the state controlled by the National Revolutionary Party (Personal communication with David Arellano Gault, November 13, 2007). Beginning in the

²⁵ This is different from the early years of the United States: While Aronson (1964) finds that bureaucratic appointments under presidents Adams, Jefferson, and Jackson tended to conform to presidents' ideological views, the differences were more modest and there was no comparable fear of bloodshed. And the development of a professional bureaucracy in both France and Germany preceded the development of party systems, so that party ideology played no role at all in the early years of these bureaucracies (Beucker and Überall 2004, 31-40).

²⁶ In 1938, the party changed its name to Party of the Mexican Revolution (Partido de la Revolución Mexicana—PRM). In 1946 it changed its name again, to Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI). It has kept this name to the present day.

1920s and continuing until the 1980s, employment in Mexico's federal public administration rose steadily, just as it did in North America and Europe (Blanco 1995, 43). In spite of all the difficulties of collecting national statistics in the post-revolutionary period, these figures can be considered quite reliable because the public employment figures (based on regular record keeping) provided by the national statistical agency for 1932 closely match those from a census of federal employees for the same year (Blanco 1995, 45).

Lázaro Cárdenas's presidency (1935-40) set the basis for the state corporatism that would distinguish Mexico for the decades to come. Cárdenas's philosophy has been described as "minimum use of suppression, maximum use of inclusion" (Blanco 1995, 49). The new top organizations for farmers, workers, military personnel, traders, and industrialists all began to serve their purpose to resolve conflicts under the guidance of the party. Federal employees initially were covered by the general top organization of workers' unions, the CTM. Later, general federal employees received their own top organization, the Federation of Unions for Workers in the Service of the State (Federación de Sindicatos de Trabajadores al Servicio del Estado—FSTSE) (Blanco 1995, 50). To this day, the FSTSE's influence is assured by the Federal Law on Workers in the Service of the State (Ley Federal de Trabajadores al Servicio del Estado), which grants the FSTSE the monopoly to represent state employees. Consequently, any modifications to the status quo have to be negotiated with this top organization (Martínez Puón 2005, 201-2). Even though it is a legacy of decades of corporatist one-party rule by the PRI, it remains intact and relatively strong (Interview with an advisor

of the Chamber of Deputies' mesa directiva—the approximate equivalent of the Rules Committee in the U.S. House of Representatives—November 14, 2007), in part by formally dissolving its alliance with the PRI and declaring its openness to all parties (Leyva Piña, Góngora Soberanes, and Rodríguez Lagunas 2004).

Under Cárdenas, the most important change in the federal public administration was a sharp acceleration in the growth of employment. Also, this growth was much larger in the civilian administration than in the military (Blanco 1995, 51).

During Cárdenas's presidency, social policy became the most important occupation of the federation, in terms of people employed and resources used (Blanco 1995, 51). The expropriation of the oil companies added more than twenty-five thousand workers to the federal payroll (Blanco 1995, 54).

The 1938 Statute for the Workers in the Service of the Powers of the Union (Estatuto Jurídico de los Trabajadores al Servicio de los Poderes de la Unión) introduced a legal distinction between higher level federal employees and lower level federal employees, as an antecedent for increased co-optation of the latter, who now received the right to join a union and to strike. The former were defined as 'employees of confidence' and they were barred from joining a union. Neither of these two groups received any kind of legal guarantee of permanence in their jobs. A year after the statute, federal employees got their own labor court, the Arbitration Tribunal (Tribunal de Arbitraje) (Blanco 1995, 56-57). In 1941, the legislation was amended to regularize promotions (Benton 2002, 4). The 1938 law has been extremely important because the basic structure it devised—with the federal public administration being made up of

‘employees of confidence’ and ‘base employees’—remained fundamentally unchanged until the merit civil service was introduced for higher echelons of the administration beginning in 2003.

During the 1940s, 1950s, and 1960s, Mexico’s economy grew strongly, even faster than the population. Especially in the 1940s and early 1950s, the federation invested heavily in infrastructure, which included nationalizing the power-generating industry (Blanco 1995, 61). This meant that the federal payroll kept growing, and that its growth was strongest among the state-owned enterprises. Under President Ruíz Cortines (1952-1958) the Law of Incentives and Rewards for Federal Officers and Employees (Ley de Estímulos y Recompensas a los Funcionarios y Empleados de la Federación) was introduced (Benton 2002, 5). It brought new benefits for federal employees such as a thirteenth monthly salary and cost-of-living compensations for locations with a high cost of living, such as the capital, Monterrey, and Guadalajara (Blanco 1995, 63). President López Mateos (1958-1964), who followed Ruíz Cortines, introduced a more wide-ranging improvement for federal employees in 1960: the State Employees Social Security Institute (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estad—ISSSTE). This new agency immediately started off with its own endowment²⁷ and provided the following benefits strictly for federal employees, both ‘base’ and ‘confidence’: health and maternity insurance, accident and work-related illness insurance, mortgages, provision of relatively cheap apartments for rent, short-term loans, and retirement pensions (Blanco 1995, 63-64; ISSSTE 2008). In 1963,

²⁷ The most likely explanation is that the endowment made it credible to government employees that these benefits would last through future presidential administrations (called *sexenios*).

article 123 of the Mexican constitution was amended with detailed rights for federal ‘base employees’²⁸ and in 1963 legislation further clarified these rights (Martínez Puón 2005, 193). They include maximum work hours per week, the right to strike, and a provision to make these employees immovable in their jobs without special cause (Blanco 1995, 64). As discussed before, the latter distinguishes ‘base employees’ in Mexico’s public administration from their counterparts in U.S.-style spoils systems. As Martínez Puón (2005) notes, with these measures the PRI, the ruling party increased the stakes ‘base employees’ held in the system (193-4).

An important change occurred with the 1968 student uprising in Mexico City. President Díaz Ordaz ordered the army to end it. On October 2 in the Tlaltelolco district of Mexico City, the army bloodily crushed a student demonstration. The estimated death toll ranges from less than forty (the official government figure) to several hundred (Gutmann 2002, 63-64). However many students died there, this event did a lot to undermine the legitimacy of the PRI’s one-party rule. The next president, Luis Echeverría Álvarez, engaged in a debt-driven enlargement of several social programs in an effort to restore the legitimacy of the government (Blanco 1995, 75-76). A major consequence of this enlargement was a strong increase in the federal payroll during Echeverría’s term (1970-1976). In part, the growth in federal employment may have been intended to enhance the regime’s legitimacy in its own right. In particular, during Echeverría’s presidency the number of federal employees grew by 16.5%, while it grew

²⁸ It is rather unusual cross-nationally that government employees’ rights are mentioned in a constitutional article. Yet note that during the decades of uncontested rule by the PRI, the party could change the constitution at will and did so frequently—there were over 350 amendments to the constitution from 1917 to 1994 (Domingo 2000, 709). Constitutional amendments such as this one served not to protect a policy but rather to underline its importance and to help it gain legitimacy (Camp 2003, 177).

by 8.3% under the previous president (Gustavo Díaz Ordaz) and only by 4.2% under the subsequent president (José López Portillo) (Blanco 1995, 78).

It is interesting to note that for decades Mexico's federal public administration has had a pay scale based on qualifications, merit, and longevity. Yet practice diverged wildly from what was on the books, and the merit component of the pay scale was largely ignored. The same pattern could be observed in the official list of job descriptions (*Catálogo de Empleos del Gobierno Federal*). It contained little more than generic names for positions and salary categories (Blanco 1995, 81).

As part of his attempt to reform the state to regain legitimacy, President López Portillo had a new law passed in 1976 to reform the federal bureaucracy's structure. This statute, the Organic Law of the Federal Public Administration (*Ley Orgánica de la Administración Pública Federal*) contained a number of targets to slowly reform the federal public administration to have clearer lines of responsibility and less duplication of work (Blanco 1995, 84). While the law was passed in 1976, it largely follows the recommendation of the Public Administration Committee, an organization founded by President Gustavo Díaz Ordaz (1964-1970) to help reform the federal administration, in particular the state-owned enterprises (Martínez Puón 2005, 185). The most important creation of this new law was the Department of Programming and Budget (*Secretaría de Programación y Presupuesto—SPP*). Its mission was to centralize the budgeting process for the first time in order to allow for a more results-oriented administration. As part of this mission, the SPP also took over responsibility for defining the employment positions

in the federal public administration (Blanco 1995, 85, 87; Torres Espinosa 1999).²⁹ President López Portillo's term (1976-82) marked the beginning of the end of the decades of inward-looking, state-dominated economic development. The definitive end of this policy was postponed for a few more years, however, because from 1978-81 Mexico experienced its greatest oil boom thus far.

When President Miguel de la Madrid Hurtado took office in 1983, the boom was over. In his inaugural speech, he described the economic situation of the country as an emergency. Indeed, in August 1982 the Mexican government had defaulted on external debt, a large part of which the previous administrations had accumulated, particularly during the oil boom (Walton 2001, 300-4). As part of its attempts at macroeconomic stabilization, which included a reduction in federal spending (Pastor and Wise 1997, 331), the de la Madrid administration went on to freeze salaries and lay off temporary workers in what may have been the first serious dent in the PRI's ability to use corporatism to control the country. Yet, notably de la Madrid did not slash the overall number of federal employees. Their overall number still grew, if now only at a modest annual average of 2.5% (Blanco 1995, 78). One of the major reasons was the legal guarantee to federal 'base employees' of immovability in their employment. Inflation eroded their purchasing power and job benefits were reduced but they did not lose their jobs. 'Only' 28,000 federal employees of confidence lost their jobs, as well as certain temporary workers (Blanco 1995, 94-95). Nevertheless, the federal public function had come under tighter financial control beginning with the de la Madrid administration

²⁹ The SPP ceased to exist as an entity of its own in 1992, when President Salinas de Gortari completely integrated the SPP into the Secretaría de Hacienda y Crédito Público (Treasury Department).

because the new Department of Comptroller General of the Federation (Secretaría de Controlaría General de la Federación—SECOGEF) had begun to investigate administrative inefficiencies (Benton 2002, 5). In 1994, SECOGEF was replaced by the Department for Administrative Oversight and Development (Secretaría de la Controlaría y Desarrollo Administrativo—SECODAM), whose stated mission was to reduce corruption (Benton 2002, 5-6). Finally, in April of 2003 SECODAM became the present Department of the Public Function (Martínez Puón 2005, 186-187).

In the last year of the de la Madrid administration, a large number of middle-level and higher-level federal administrators received a bonus on top of their salaries. The major reason for the bonus was that these administrators carry out a larger share of the work compared to their counterparts in Western Europe or the United States (Personal communication with David Arellano Gault, November 13, 2007), since many base workers lack both skills and incentives to contribute more. This situation, which also occurs in a number of other Latin American countries, inspired the formal model in Huber and McCarthy (2004). Nevertheless, this bonus led to an outrage both among the large number of ‘base employees’ left out as well as in the general public. Several groups of federal employees launched protests that only subsided when the new administration of President Salinas de Gortari in January 1989 mandated a nominal increase of 10% for all federal employees and paid them fifteen days worth of extra salary (Blanco 1995, 96).

Already in 1983, an interdepartmental commission set up by President de la Madrid’s administration (Martínez Puón 2005, 199-200) issued a detailed

recommendation for the introduction of a merit system. Yet the president never acted on the proposals (Blanco 1995, 93). While it might be speculated that the de la Madrid administration abandoned any efforts at introducing a merit civil service in order to appease the more traditionalist part of the PRI, the most important factor in the quiet funeral for these reform plans was that the top organization of public servants' unions, the FSTSE, rejected them (Martínez Puón 2005, 202). Indeed, as long as the PRI held both the presidency and the majority in the national legislature, any serious move to a merit civil service would have undermined the complex system of career networks and loyalties known as *camarillas*³⁰ that guaranteed the PRI leadership, in particular the president, control over the legislature (Hernández Quintana 2004, 90). Only in the second part of the Zedillo administration (1997-2000), when the PRI had lost its majority in the Chamber of Deputies, would one have expected the introduction of a merit civil service.³¹ Then, all parties had incentives to introduce it: (i) in order to constrain the state against the potential of a new party hegemony; (ii) to enable the state to function under divided government; and (iii) to ease power transitions, especially given Mexico's constitutional prohibition of re-election (Hernández Quintana 2004, 82). Yet it still did not happen. While the Zedillo administration revitalized efforts to create a merit civil service, disagreements between officials in the Department of Finance and

³⁰ Very briefly, a *camarilla* is a clique of people with similar political interests who rely on each other, and in particular on the leader of the *camarilla*, to advance their careers within government (Camp 2003, 117-118).

³¹ In Mexico, presidential and senatorial elections are held every six years, while elections to the Chamber of Deputies are held every three years, concurrently with the election to the presidency and the Senate in even election years. In the 1997 election, when the PRI lost its majority in the Chamber of Deputies, no other party gained an absolute majority, as the PRI faced opposition of two major parties: the PAN and the PRD.

Public Credit and officials in SECODAM forestalled a reform at that point (Benton 2002, 6). Only under the Fox administration—the first post-revolutionary presidency not held by the PRI—did the proposals for a broad merit system turn into reality, with the passage of legislation in 2003.

Before reviewing the key features of this legislation, it is helpful to see what elements of Mexico's administrative history have made it impossible for politicians prior to the creation of a broad merit system to use the bureaucracy to commit themselves to serve broad interests and refrain from diverting funds and abusing power. First, the high value placed on loyalty led to a relatively thick layer of political appointees making up approximately one third of the federal public administration. By the nature of their appointments citizens perceive them, rightly or wrongly, to be concerned with furthering the goals of particular politicians and their party and consequently they cannot credibly commit politicians not to divert funds and abuse power. Second, the corporatist system developed over seven decades of one-party rule is epitomized by the huge layer of 'base employees,' making up more than sixty percent of the federal public administration. Due to their job security (further enforced by the strength of their union), which is not necessarily contingent on probity, delegating to them cannot credibly commit politicians not to divert funds. Finally, the importance of career networks within the bureaucracy contributed to a lack of transparency that would have rendered incredible any statement by politicians that they will bind themselves against graft and abuse of power by delegating to neutral officials.

Now I examine whether the 2003 merit system legislation has served to create a budding commitment device. First I turn to the characteristics of the legislation, then I examine whether there is evidence consistent with the idea that it is being used to lock in loyalists of the party in power (which would reduce its ability to create a credible commitment in the short term), and finally I examine how well the merit system has been implemented to date.

The fruit of cooperation: the Federal Merit System Law

The bill to create the Law of the Professional Career Service in the Federal Public Administration (Ley del Servicio Profesional de Carrera en la Administración Pública Federal; SPC law³² henceforth) was initially passed unanimously by the Senate on October 24, 2002. The Chamber of Deputies passed it nearly unanimously (with six abstentions) in a somewhat modified form on March 25, 2003. The Senate approved the modifications on April 3, 2003, and the President signed it into law on April 9, 2003. The lack of opposition to the bill is due to three factors: (i) all major parties were in favor of creating a merit civil service in order to improve the government's credibility; (ii) party discipline ensured party-block voting; and (iii) the concerns of some in the Chamber of Deputies about the Senate bill were addressed before the bill reached the Chamber floor (Interview with a former senator, held November 21, 2007). Note that the SPC law did not go into effect until more than a year later, when the detailed regulation had been promulgated (April 2, 2004) and all details clarified. On May 7,

³² The full text of the SPC law is available at <http://www.funcionpublica.gob.mx/leyes/leyspc/lspc.htm> (last accessed July 31, 2008).

2004 the first open competitive examinations for posts in the new merit civil service was held and thus the work to create a merit civil service in Mexico's federal government began in earnest (Hofmann 2006, 23). This merit civil service is defined by the same two core aspects as the merit civil services of other countries: entry through open competition and protection of civil servants against arbitrary dismissal (for instance, see Horn 1995, 96-97). The SPC law modifies the Organic Law of the Federal Public Administration (*Ley Orgánica de la Administración Pública Federal*) and the Law of Budgeting, Accounting, and Federal Public Spending (*Ley de Presupuesto, Contabilidad y Gasto Público Federal*). Also, it amends the Planning Law (*Ley de Planeación*).

The merit civil service is placed in the executive branch (led by the president), directed by the Minister of the Public Function, and managed by each of the federal departments and agencies. The Public Function Department (*Secretaría de la Función Pública*) is a cabinet-level department that oversees the merit civil service in all departments and agencies. It has a supporting council that makes recommendations to develop and improve the merit civil service.

Importantly, it is the Public Function Department that develops the annual budget for the merit civil service. Also, the Public Function Department helps to implement the merit civil service in the different departments and agencies and audits how they fare in this respect. Also it approves all posts that are to be exempted from the merit civil service—of 97,000 higher level positions in the centralized federal public administration, 61,000 are exempted from the merit civil service. Finally, it oversees the

committees that select and evaluate the merit civil servants within each department and agency.

One of the most important aspects of the SPC law is that it will only cover about 36,000 administrators when it is fully implemented. The core of Mexico's federal public administration (i.e. excluding state-owned enterprises), however, is made up of roughly 650,000 people. These 36,000 administrators form higher levels of the administration. Most of them occupy middle- and upper-middle management roles that play the crucial role of translating broad strategic mandates into operational decisions, and these decisions often decide over the success or failure of a strategy, as management research has shown (Floyd and Wooldridge 1997). The majority of positions in the higher levels of the administration, including the highest echelons, will remain outside the new merit civil service created through the SPC law (Secretaría de la Función Pública 2007).

What makes the new Mexican merit civil service stand out from the way civil services were introduced in European countries and the United States is that lower-level posts are completely excluded. The federal 'base employees' are unaffected by these reforms. Reforming the status of present 'base employees' and also changing the fundamental conditions of employment for future 'base employees' would not likely have obtained the approval of the FSTSE, the top organization of public servants' unions (Interview with a former senator, held November 21, 2007). A senior official in the Public Function Department points out that the FSTSE was not involved in the negotiations leading up to the SPC law (Interview held November 7, 2007). The unions

within the FSTSE tend to support the maintenance of the status quo for ‘base employees,’ particularly their tenured status (Mejía Lira 2004, 16).

The provisions for entry through open and public competition, on the other hand, fit squarely within the traditions of both civil services in Europe and Mexico’s own, pre-existing agency-specific merit systems. The Federal Electoral Institute, the National Institute for Statistics, Geography, and Informatics, the Foreign Service, the National Water Commission, the Professional Agrarian Service, the Attorney General’s Office, and the Tax Administration Agency all use open competitive examinations for taking in personnel (Pérez Ornelas 2005).

Departments may designate general criteria for those higher-level posts that will remain outside the merit civil service. The performance of holders of these posts will however be evaluated in accordance with the SPC law. Also, ministers are allowed a certain number of political advisers, whom they can appoint and remove freely. The Department of the Public Function decides how many of them each minister is allowed, taking into account a department’s budget and making sure that the political advisers do not carry out duties reserved for merit civil servants.

Political appointees and ‘base employees’ who were not appointed through the open competition established in the SPC law may enter the merit civil service by going through examination and appointment procedures listed in the SPC law. A ‘base employee’ who wants to enter the merit civil service cannot retain his or her previous guaranteed workplace. If they accept employment in the merit system, they forfeit their tenure.

The Department of the Public Function has been building a data base that will eventually contain all employees in the federal government departments: the Central Register of Public Servants (Registro Único de Servidores Públicos—RUSP).³³ It contains additional information on all merit civil servants, such as their training and performance evaluations. The Central Register is supposed to help the Public Function Department make plans for how many merit civil servants to take in each year, both on how many posts that are now vacant are to be filled through open competitive examinations and how many existing political appointees will be given a chance to take examinations and be certified in order to enter the new service. The Central Register is to be updated continually, for example when merit civil servants obtain additional qualifications or new posts are opened. I now use some of these data to check an important factor in the strength of the credible commitment that the new merit system can create in the short term: whether or not it is largely used to lock in party loyalists in important posts.

Are there differences in commitment through the new merit civil service between departments? A quantitative exploration

As laid out in the theoretical argument presented in chapter II, politicians who limit their ability to exert day-to-day influences on the details of policy implementation are able to gain the potential benefit of making their claims to represent broad groups more

³³ Technical information about the Central Register can be found at a designated web site maintained by the Public Function Department: <http://www.usp.funcionpublica.gob.mx/rusp/> (last accessed July 28, 2008).

credible. Yet they and their parties also face the cost of losing the support of narrow but important factions. One way to satisfy factions in the short term is to appoint loyalists to important posts in upper-middle management, precisely the echelons of the federal public administration that now fall under the rules of the new merit system. The downside of attempting to lock in loyalists in merit posts is that this method weakens the creation of a credible commitment in the short term. Of course, in the longer term even a merit system that initially mostly locked in loyalists of the party in power still tends to create a credible commitment. The reason is that with time, even many original loyalists who are now in posts protected by merit rules tend to become less susceptible to day-to-day political influences (cf. my discussion of the Pendleton Act in chapter II). Yet since the politicians' credibility problem is quite acute in Mexico, if the argument proposed in this dissertation applies, they would have a good reason to refrain from using the new merit system to try to lock in loyalists, as this would weaken the credible commitment in the short term all the while politicians need to achieve more credibility in the short term. Thus it is interesting to examine whether there is an unusual percentage of people who were appointed after the beginning of the first PAN presidency in posts that fall under the new merit system rules. I now present the results of a quantitative exploration to answer this question.

I use data from the Central Register of Public Servants (Registro Único de Servidores Públicos—RUSP), a data base the Public Function Department has been building (see the discussion above in the section on the SPC law). The Central Register currently contains basic information about half of the employees in the federal

government departments. On January 11, 2008 I filed a freedom of information request for these data through the federal government's freedom of information web site, the System for Information Requests from the Federal Public Administration (Sistema de Solicitudes de Información a la Administración Pública Federal—SISI).³⁴ My request was for the non-confidential variables from the Central Register, captured at four points in time: December 31, 2004; December 31, 2005; December 31, 2006; and December 31, 2007. On March 27, 2008 I received a data disc containing this information in four large data files, each of which contains close to 300,000 observations. In the four data sets, each observation is a post in the central federal public administration.

For the exploratory analysis reported here, I use the 2007 data set because it is most pertinent to the question of whether there is evidence consistent with the idea that the party in power has been attempting to lock in loyalists. If there is such an attempt, the evidence will be strongest in the 2007 data because the longest time of PAN presidential incumbency has passed since it began in the end of 2000, when President Fox took the oath of office. In addition, since the Central Register as a data base is a work in progress, the 2007 data are the best available. The 2007 data cover 287,438 posts, 40,364 of which fall under the new merit civil service rules, 18,319 are pure confidence posts, and 70,980 are base posts. Most of the rest of the data set is made up of posts whose holders are listed as discharged (139,989), with the remainder being composed of small categories such as medical personnel, short-term contracts, and interns. I use three variables for this exploratory analysis: (i) the department the post is

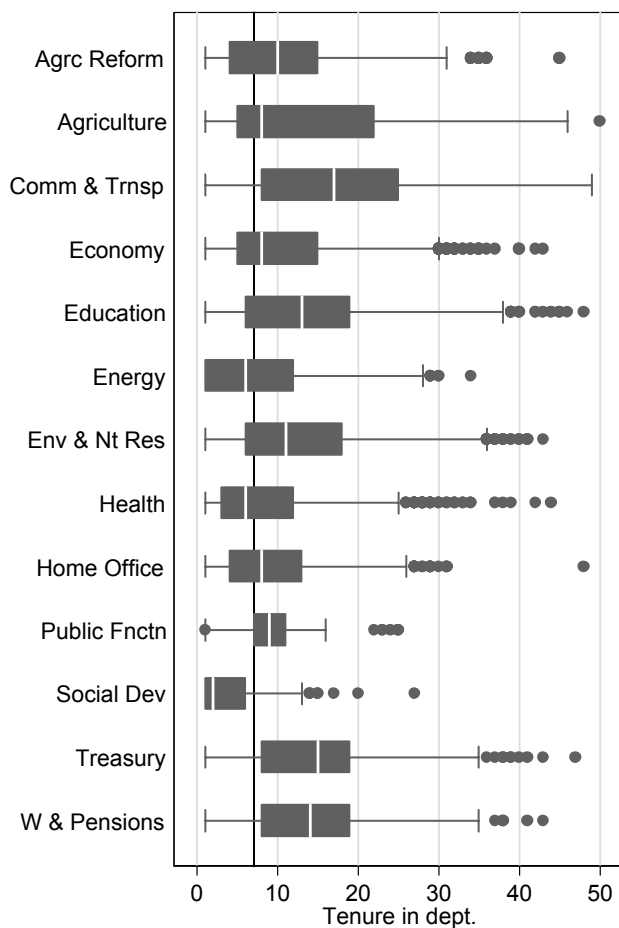
³⁴ The web site is located at <http://www.sisi.gob.mx/> (last accessed on March 20, 2008).

in; (ii) the date the current post-holder was appointed to any post within that department; and (iii) whether or not the post is designated to fall under the new merit civil service. I aggregate this information to the department level. Unfortunately, it is not possible to further look at individual-level variation because the unique person identifier variable and variables on each employee's background and characteristics were removed—they are confidential.

I generate an annualized tenure indicator for the employees in posts that fall under the new merit civil service rules. If the person began to work in a department on any day in 2007, their tenure is coded as 1. If they began on any day in 2006, their tenure is coded 2, and so on. Across all departments, this variable has a mean of 12 ½ years, a median of 11 years, and a standard deviation of 8 ½ years.

Now, the interesting question is whether there is evidence consistent with the idea that the PAN, which has held the presidency since the end of 2000, might have made efforts to lock in its supporters in new merit civil service posts. The observable implication of this would be the presence a very large percentage of people who entered a department after the PAN first began to govern the country, at the end of 2000. If such a pattern were visible, the evidence for the credible commitment argument developed in chapter II would be weakened. To evaluate this possibility, I compare the distribution of tenure in the public administration for all posts that fall under the new merit civil service rules between the thirteen departments that are covered in all of the four data sets. For this analysis, I use the data set capturing administrators on December 31, 2007.

Figure 7: Department-by-department comparison of within-department tenure (in years) of the people in posts that fall under the new merit civil service rules (box plots—middle of box is the median)



As Figure 7 shows, while there are some interesting differences in the median tenure of holders of posts that fall under the new merit civil services rules between the thirteen departments, there is little evidence in accordance with a lock-in of PAN loyalists. For each department, a box plot (Tukey 1977) summarizes the tenure of administrators within that department. The main part of each box plot is a solid grey box that covers the middle fifty percent of administrators in posts that fall under the new merit rules in terms of tenure within that department. The left border of the box indicates the 25th percentile and the right border of the box the 75th percentile. In other words, the left border indicates that a quarter of administrators in that department in posts falling under the merit rules have a tenure of that length or shorter, and three quarters have a tenure of that length or longer. Similarly, the right border indicates that three quarters of administrators in that department in posts falling under the merit rules have a tenure of that length or shorter, and one quarter have a tenure of that length or longer. Further, each grey box contains a fine white vertical line. It is the median (the 50th percentile). The median indicates that half of administrators in that department in posts falling under the merit rules have a tenure of that length or shorter, and half have a tenure of that length or longer. To help distinguish those who were appointed before and after the PAN took control of the presidency, a solid black line cuts vertically through the whole figure. This line indicates a tenure of seven years. A person who started on or after January 1, 2001 would have a tenure of less than seven years and consequently be found to the left of this line. Everyone to the left of this line entered their department

under a PAN presidency (either Fox or Calderón), while virtually everyone to the right of this line entered their department still under a PRI presidency.

Looking at Figure 7, there is little evidence in accordance with a lock-in of PAN loyalists. Only in the Departments of Energy, Health, and Social Development were more than fifty percent of administrators in posts that fall under the new merit rules appointed to the department after the PAN first assumed the presidency in the end of 2000. In such crucial departments as the Treasury and Work and Pensions, more than three quarters of administrators in posts that fall under the new merit rules were appointed when the presidency was still held by the PRI, which had governed the country for seven decades. Even the Public Function Department, which oversees the implementation of the new merit civil service, has a median within-department tenure of nine years of administrators in posts that fall under the new merit rules. Consequently, these data provide hardly any evidence in accordance with a Pendleton-like lock-in of party loyalists in posts that are protected by merit rules.

So far, so good. The absence of a very overt attempt to pack the new service with party loyalists means that it does not start off obviously tarnished. Yet how has its start been? I now examine the first years of the federal government's new merit civil service in order to examine whether it has already helped Mexico's politicians to build a credible commitment, as the theoretical argument developed in chapter II suggests it would.

The difficulty of creating commitment: the first years of the new federal merit civil service

The challenging task of implementing the merit civil service has not gone smoothly. At the end of February 2006, only about 40% of the posts designated as falling under the merit system were actually occupied by merit civil servants. The rest continued as political appointees (Hofmann 2006, 25).

When the federal government, led by the Public Function Department, began to build the new merit civil service in 2004, difficulties quickly became clear. As a senior official in the Public Function Department explains, human resource management was heretofore largely unknown and the departments and agencies lacked the tools and the experience necessary to provide training courses and organized professional development. There are differences between departments, however. The Department of Work and Pensions and the Department of Energy managed to develop their human resources management more quickly than other departments and consequently made greater progress in introducing the new merit system. A general problem across the administration is the lack of capacity to carry out performance evaluations to clear standards. The first two performance evaluations of the new merit civil servants, held in early 2006 and 2007, were too generous in terms of the grades achieved. More worryingly, there was also a lack of experience in conducting competitive examinations to fill posts. This lack of experience led to problems in following the examination protocol, which in turn resulted in many of them being declared void. The problems

with the open competitive examinations were still not resolved in the fall of 2007; still more than a third had to be declared void (Interview held November 7, 2007).

Probably the biggest weakness of the merit civil service project, and its greatest liability for the future, is that it has not become widely known among ordinary citizens (Hofmann 2006, 37; interview with a senior official in the Public Function Department, November 7, 2007; personal communication with David Arellano Gault, November 13, 2007). This is a weakness because, as discussed in the introduction of the notion of credible commitment in chapter II, for a commitment device to be effective, it must be recognized by the party to whom one wants to commit. Since Mexico is now a competitive democracy, politicians have to commit to large groups of the electorate. If the electorate does not recognize these attempts, they will be of no value for gaining its confidence. Also it has to be underlined that for any commitment to be credible, it has to be in the committing party's³⁵ selfish interest to do what they want themselves to commit to. As discussed in the introduction of the notion of credible commitment in chapter II, the committing party does so by taking actions to limit their options. Verbal statements are insufficient because they would simply be considered cheap talk by the other party, in this case Mexican citizens. Valverde Loya (2007) argues that the service's future partially hinges on becoming known and accepted among the citizenry (36). The only alternative is that the new merit civil servants themselves will form a pressure group to maintain the system yet the modest size of the new service makes it doubtful that it will succeed. In any case, since the service remains widely unknown

³⁵ Here I use 'party' in the sense of actor, as for example used in legal proceedings, not in the sense of political party.

among the general populace, it cannot yet serve to create a credible commitment among the population as a whole. This will only develop far downstream, when the system has consolidated, if at all. Rather, the credible commitment that the Mexican federal merit system creates is one among citizens following politics extremely closely and higher-level federal employees, who can now obtain a guarantee not to have to indulge politicians' requests for special treatment for small factions.³⁶ The problem is that this may be too little, too late to halt and reverse the erosive effects of Mexicans' widespread distrust of public officials both on the probability of success of genuine attempts by politicians to implement economic and social policies that benefit large groups of the population³⁷ and on the attractiveness of Mexico to legitimate creators of prosperity, domestic and foreign.

Some might argue that the credible commitment that the new federal merit system creates is not with a domestic audience at all but rather with international organizations such as the International Monetary Fund, the World Bank, or the Organisation for Economic Co-operation and Development. The stronger version of this argument is that pressure from such external actors led to the creation of the new federal merit system. While it is possible that the federal merit system, if and when it has consolidated, will ease Mexican negotiations with these international organizations *at the margins*, there is little evidence that external pressure contributed anything

³⁶ As Mexico's new federal merit system draws on the dual mechanisms of *compliance*-inducing incentives, including performance monitoring, and *selection* of motivated personnel, it should not negatively affect administrators' work ethic. For a further discussion of the dual mechanisms of compliance and selection that undergird merit systems, please see chapter 2.

³⁷ This also chimes with the purpose of the SPC law, as stated in Title 1, Article 2. Cf. <http://www.funcionpublica.gob.mx/leyes/leyspc/lspc.htm> (last accessed July 31, 2008).

significant to the Mexican decision to create a merit system. During the run-up to the creation of the merit system in the early 2000s, the federal finances were in good shape, with foreign-currency reserves (excluding gold) steadily growing from nearly 36 billion U.S. dollars at the end of 2000 to nearly 59 billion U.S. dollars at the end of 2003 and total central government debt remaining below 25% of GDP throughout the same period (OECD 2001-2005). Therefore Mexico did not depend on aid by these organizations. At best it might be said that suggestions by these international organizations helped *at the margins* with the development of the new federal merit system, yet even such claims are likely to be overstated, especially by the good governance teams within these organizations who need to justify their existence and expenditures (Cejudo 2007).

As Arellano Gault (2005) points out, in any country with a civil service system there is a constant struggle between those who would like to reinforce stability and the credible commitment generated by a civil service and those who would like to have a more flexible service that more easily responds to day-to-day political influences (36). Having won the 2006 presidential election, the PAN has now lessened its emphasis on the former and is supporting the return of the highest grade of the new merit civil service, the director general, to political appointee status (Interview with a technical secretary, held November 9, 2007). The new merit civil service crucially depends on continued support in the strengthened congress (Valverde Loya 2007, 36).

The new 2007 merit civil service regulation (as opposed to the 2004 merit civil service regulation) puts less emphasis on tight control by the Public Function Department. Arellano Gault (2005) suggests that this control is excessive (49) yet any

move toward flexibility might also weaken whatever credible commitment can be gained by tying ministers' hands. On the other hand, the tight control by the Public Function Department could also be seen as a modern continuation of the Mexican administrative tradition of over-formalization—this means a tendency toward overtly legalistic documents and a focus on form over substance (Arellano Gault 2005, 43)—which transcends public administration.

Overall, Mexico's new federal merit civil service is an ambitious project that still has the potential to create a credible commitment by politicians in order to reduce citizens' distrust and the negative consequences thereof. To date, the new service has very limited visibility among the electorate. After the 2006 elections, the PAN has shown less interest in the merit civil service. President Calderón is particularly concerned with the loyalty of administrators in key posts (Interview with a former senator, held November 21, 2007), which is in line with his administration's focus on the fight against drug lords. While this reduction in interest in the new service might lead to a further weakening of the credible commitment that the new service creates, the possibility of consolidating a visibly merit-based bureaucracy remains. The probability of it succeeding might in fact be greater if the Mexican state manages to establish a monopoly on the use of large-scale force in all parts of the country. I now turn to the final empirical investigation in this chapter, a comparison of the two merit systems for legislative staff of the two houses of the Mexican congress.

A tale of two chambers: the attempts at introducing merit systems for congressional staff in both houses of the Mexican congress

The theoretical argument introduced in chapter II suggested that cooperation between parties is necessary to create and maintain a merit civil service. More specifically, proposition 1 stated that merit civil service reform is less likely to occur without party organization, and proposition 2 stated that merit civil service reform is a possible but not a necessary consequence of repeated interactions of organized parties, depending on the evolution of cooperation between parties. In chapter II I modeled this as an iterated prisoners' dilemma between parties. In a nutshell, it shows how parties can use reciprocity to maintain the cooperation necessary to create and sustain a merit system. An implication is that factors that foster the onset of inter-party cooperation should also encourage the development of a merit system. Mexico's bicameralism allows for an interesting illustration of this argument. The country's federal legislature has two chambers, the Chamber of Deputies and the Senate. By law, each has its own merit civil service for legislative staff. Note that neither of these two merit systems is affiliated with the new merit civil service of the federal public administration. While a legislative period in the Chamber of Deputies lasts three years, it lasts six years in the Senate. Therefore a priori one would expect the Senate's own merit civil service to be better implemented than the Chamber of Deputies' own merit civil service.³⁸ After briefly

³⁸ One might make the counterargument that there is more experience with party cooperation in the Chamber of Deputies because it has a much longer history of substantial opposition party representation than the Senate (for instance, see Camp 2003, 174-7). Yet this matters less since the prohibition on re-election means that personal experience from the more pluralistic 1990s Chamber does not benefit the Chamber any more than the Senate—in both cases, this experience is transmitted through the party organizations.

introducing both chambers, I compare both merit systems to examine whether this is the case. Then I show how this illustrates the iterated game between parties.

There are 500 seats in the Chamber of Deputies. 300 of these are filled with deputies representing districts, who are elected using the first-past-the-post rule. The remaining 200 deputies, who are known as plurinominal, are elected at large from five regions that the country is divided into. For each region, forty plurinominal deputies are elected. These seats are distributed among parties using a proportional representation rule that is based on the vote share that each party receives in the region. All seats in the Chamber of Deputies are up for election every three years, while the presidency and the Senate are elected every six years in the same year. The last elections for all three bodies were in 2006 and the next ones are scheduled for 2012. The Chamber of Deputies will have its next elections in 2009. As for all elected offices in Mexico, immediate reelection of deputies is prohibited. Therefore, no one from the last legislative period returns this period. The current legislative period, from September 1, 2006 to September 1, 2009, is known as the 60th legislature. The 2009-2012 legislative period will be the 61st legislature. This naming also applies to the Senate, even though the same senators will be in office in the 60th and 61st legislature. The next elections to the Chamber of Deputies will take place in the summer of 2009 and the next elections to the Senate, the presidency, as well as to the Chamber of Deputies will take place concurrently in the summer of 2012. In the current 60th legislature, the PAN holds 207 seats (137 of them representing districts), the PRD 127 seats (91 of them representing districts), and the PRI 106 seats (65 of them representing districts) (Cámara de

Diputados 2007). Consequently, Calderón requires the support of other parties to enact his legislative proposals. He appears to rely to a large extent on the PRI in exchange for a variety of concessions including appointments of legislative staff (Interview with an advisor of the Chamber of Deputies, November 16, 2007).

The Senate has 128 seats. There are two senators from each of the 31 federal states and the Federal District that makes up the central part of the Mexico City metropolitan area, giving a total of 64 senators. A third senatorial seat is filled for each state and the Federal District with a representative of the party that received the second highest vote count. There are a total of 32 seats filled under this rule. The remaining 32 senatorial seats are distributed among parties using a proportional representation rule that is based on the vote share that each party receives in the country as a whole. In the current 60th legislature, the PAN holds 52 Senate seats, the PRI 33 Senate seats, and the PRD 26 Senate seats (Senado de la República 2008).

The impulse for the merit systems for legislative staff of both the Chamber of Deputies and its counterpart in the Senate dates back to the 1997-2000 legislative period, i.e. the 57th legislature, when the PRI had lost its majority in the Chamber of Deputies for the first time (though it was still the largest party and it still held a majority in the Senate). Then, faced for the first time with the prospect of changing majorities, the major parties agreed on a new Organic Law for the Congress (*Ley Orgánica del Congreso General de los Estados Unidos Mexicanos*) that foresaw within each chamber the creation of a merit system for legislative staff (Hernández Quintana 2004, 137). The general rules governing the merit civil services for legislative staff within the Organic

Law for the Congress (published in the Official Diary of the Federation on September 3, 1999) were hastily written and contain many ambiguities (Hernández Quintana 2004, 138; interview with a director general in the Chamber of Deputies, November 20, 2007). Consequently, more precise regulations were needed to put these systems into practice. Here, a great contrast can be observed: While the merit system for legislative staff in the Chamber of Deputies is based on ambiguous rules passed at different dates (Interview with a director general in the Chamber of Deputies, November 20, 2007), the Senate's merit system is based on the fairly clear Regulation of the Career Civil Service in the Senate (*Estatuto del Servicio Civil de Carrera de la Cámara de Senadores*), approved on November 7, 2002 (Centro de Capacitación y Formación Permanente 2006, 2).

Not only are the legal bases of the merit systems of the Senate and the Chamber of Deputies very different but so is their implementation. Nowhere is this more visible than in the status of technical secretaries, who manage the day-to-day business of legislative committees and help to prepare legislation. They are the highest level of staff in legislative committees, and they tend to be highly qualified. The Organic Law for the Congress suggests they should be merit civil servants (Hernández Quintana 2004, 103-4). Indeed, in the Senate, the majority of technical secretaries are now part of the Senate's own merit system (Interview with an area director in the Senate, November 23, 2007). Yet in the Chamber of Deputies most technical secretaries are on short-term contracts because there appears to be far greater skepticism about the idea that technical directors should be accountable to the whole chamber—as they are if they form part of a merit system—as opposed to the committee chair, who decides about the continued

presence of a technical secretary on a short-term contract (Hernández Quintana 2004, 105; interview with an advisor of the Chamber of Deputies, November 16, 2007). An unfortunate consequence is that many of these highly qualified individuals leave at the end of a legislative period (Campillo Toscano 2006, 194). In the words of a former senator, “the Chamber of Deputies is the most expensive training college of the country” (Interview held November 21, 2007).

The differences between the merit systems of both chambers are also striking in their respective recruitment practices. More than any other merit system in Mexico, the recruitment into the Senate’s merit system for legislative staff relies on strict criteria fixed in advance. The selection of personnel in open competitive examinations is completely based on the number of points scored; interviews with short-listed candidates are also evaluated exclusively through coding criteria that assign points for answers and behavior during the interview. More precisely, the web-based examinations cover (i) general knowledge; (ii) professional/technical knowledge; (iii) practical case studies; and (iv) psychometric profiling. For all these, numerical scores are obtained. Once a candidate has taken the online exam, they are immediately shown the numerical score they achieved. Technical interviews with short-listed candidates are also immediately scored numerically. At the end of this process, the person with the highest total score is offered the post (Centro de Capacitación y Formación Permanente 2006, 6). The recruitment process for the Senate’s own merit system for legislative staff appears to work better than that of the new merit system for the federal government: Only about ten percent of posts are not filled, while more than a third of the open competitive

examinations for the federal government's new merit civil service do not lead to appointment offers³⁹ (Interview with a senior official in the Public Function Department, November 7, 2007; interview with an area director in the Senate, November 23, 2007). In comparison to the Senate, while the Chamber of Deputies has also held open competitive examinations for its merit system, the criteria for appointments into its merit system have not always been clear (Interview with an advisor of the Chamber of Deputies, November 16, 2007).

In summary, the Senate's merit system for legislative staff has been implemented more successfully than the Chamber of Deputies' merit system for legislative staff. What explains this difference? The iterated prisoners' dilemma between parties discussed in chapter II suggests that cooperation between parties enables a merit system to develop. If it is a useful model, there should be more factors fostering cooperation between parties in the Senate than in the Chamber of Deputies. Three such factors are the amount of interaction between party members (which is an increasing function of the time spent together and a decreasing function of the size of an institution) and the political experience of party members (the higher, the more easy they find cooperation with members of other parties). First, senators spend more time together than deputies because they spend six years in office, as opposed to three years for deputies. Second, senators also spend more time together than deputies because the Senate is smaller. Finally, on average senators tend to have more political experience than deputies

³⁹ One reason might be that the Senate had more time to prepare these examinations: the regulation was approved in November 2002 and the first open public competition was not held until June 2005 (Centro de Capacitación y Formación Permanente 2006, 2).

(Langston 2006, 401-5; Interview with an area director in the Senate, November 23, 2007). All three factors suggest that the inter-party cooperation necessary to create and maintain any merit system, but particularly one for legislative staff, is easier to achieve in the Senate than the Chamber of Deputies. A visible sign of this is that only in the Senate do the members of the executive committee (*mesa directiva*⁴⁰)—composed of leaders of the major parties—foster the merit system for legislative staff (Interview with an area director in the Senate, November 23, 2007).

Having shown how the comparison between the merit systems for legislative staff in the Senate and the Chamber of Deputies illustrates proposition 2 from chapter II, which stated that merit civil service reform is evolutionary rather than well-designed strategically, can this comparison also provide some illustration for proposition 1 from chapter II, which stated that merit civil service reform is less likely to occur without party organization?

It is easy to see that there are no differences in party organization between both chambers. In both cases, the organization of all major parties is highly developed. Indeed, party leaders have far greater control over legislators because of the prohibition on immediate re-election. It makes legislators agents of their party above anything else because instead of the voters in one's district, only the parties control political futures (Hernández Quintana 2004, 119).

Before moving to overall conclusions about the Mexican case and how the theoretical argument developed in chapter II applies to it, a brief discussion of the

⁴⁰ I use Fitzgibbon's (1947, 585) translation of this term.

consequences that the weak implementation of its legislative staff merit system bring for the Chamber of Deputies is in order. Hernández Quintana (2004) argues that it is doubtful that without reforms to its personnel system the Chamber of Deputies will achieve greater capacity to challenge the executive constructively (141); it can only challenge it by blocking presidential initiatives. As many highly qualified staffers leave the Chamber at the end of a legislative period and take their experience in interacting with the executive with them, the Chamber's ability to oversee the federal government is severely weakened (Campillo Toscano 2006, 194). Yet many deputies also recognize that there is a trade-off, and they appear to prefer to give up capacity to oversee the executive to risk having to deal with permanent legislative staff, while they themselves have to depart after three years. Only senators, with their generally far greater political experience, seem to not fear being outfoxed by such permanent officials. It is likely that this situation in the Chamber will remain until the prohibition on immediate re-election gets lifted (143). Yet this prohibition is one of the “myths of Mexico”—still deeply rooted in Mexicans' political thinking—and many dare not touch it (Interview with a former senator, held November 21, 2007).

Conclusion: tentative steps toward credible commitment in a difficult environment

After the country's democratic opening, which occurred in two stages—when the PAN and PRD won control of the Chamber of Deputies in 1997 and when the PAN won the presidency in 2000—Mexico's politicians, in particular members of the PAN, which holds the presidency, but also members of the other major parties have come under

increasing pressure to build credibility for themselves and the federal government. Given the constraint imposed by the presence of a large layer of tenured ‘base employees,’ they still managed to enact and begin to implement a merit civil service spanning a relatively small but decisive layer across all of the federal public administration. Examining this process yielded a number of insights about the usefulness of the theoretical framework introduced in chapter II.

First, I showed how Mexico’s political and administrative history have created a situation of severe distrust in public officials, which has become an urgent problem because the country is now a competitive democracy. This nicely illustrates my theoretical argument developed in chapter II, which is based on the need for elected officials to prove to a skeptical citizenry that they will not abuse their position to divert funds to themselves and their friends and other narrow factions.

Second, I drew on published academic work, secondary materials, my own elite interviews, and personnel data to show how parties managed to cooperate to pass the federal merit civil service law in 2003 and how they have thus far cooperated enough to allow it to begin to be implemented. Also I found no evidence in accordance with the idea that the new service would mainly be used to lock in loyalists of the presidential party. These findings are all in line with my theoretical argument developed in chapter II.

Third, I used published academic work and my own elite interviews to illustrate the precariousness of the young service. Mexico’s new federal merit system still faces an uncertain future because continued cooperation of the parties to support it is not

ensured and also because it lacks visibility to the citizenry. This latter part contradicts my theoretical argument developed in chapter II because in it I suggest that politicians will use merit systems to commit themselves to serve large groups, which requires that the commitment device is known to these large groups.

Finally, I used published academic work, secondary materials, and my own elite interviews to compare the success of the two merit systems of the two chambers of the Mexican congress and evaluate how important party organization is for that. I showed how the greater experience and longer terms of senators facilitate cooperation between them and how their merit system for legislative staff is better implemented than that of the Chamber of Deputies with its shorter terms and generally less-experienced legislators. These findings are in line with the party cooperation part of my theoretical argument developed in chapter II.

Overall, the theoretical argument I developed in chapter II applies fairly well to the case of Mexico's new federal merit civil service, with the exception of the limited visibility of the new service to the citizenry. Future research will need to examine the reasons for the lack of effort at publicizing the service more broadly.

In the next chapter, I proceed to further probe the theoretical argument developed in chapter II by indirectly testing the assumption that merit civil servants create stability against panel data on English and Welsh local governments in the 1950s and 1960s.

CHAPTER IV

DO OFFICERS PROTECTED BY MERIT RULES CREATE STABILITY? A TEST
 USING PANEL DATA ON LOCAL GOVERNMENTS IN ENGLAND AND WALES,
 1949-67

The theoretical argument of this dissertation is based in part on the assumption that appointed officials operating under merit rules create stability. That is, I assert that professional civil servants maintain values regardless of which party governs. Confidence in this assumption, and consequently in the theoretical argument, would be increased if it were possible to test it. The major suggestion from the theoretical argument was that they maintain the value of rule-based distribution of public funds and favors. Yet to test the assumption *per se*, a stronger test would be desirable, namely whether professional civil servants also maintain certain policies. An ideal setting for such a test would be a political system with parties that have clear and distinct policy positions and few formal barriers to swift policy change on the one hand and well-established merit rules protecting appointed officials on the other hand. The test would then consist of examining whether a change from one party to another brought about significant policy change above and beyond what would be expected in the absence of a change in party control. In other words, this would be a test of whether there are party effects. Rejecting the null hypothesis of this test—providing evidence of party effects—would be sufficient to refute the idea that appointed officials operating under merit rules provide stability. Conversely, a failure to reject this null hypothesis—a lack of evidence

of party effects—would be in accordance with the assumption that appointed officials operating under merit rules provide stability.

There is an empirical setting that fulfills the conditions necessary to carry out the test. It is the system of local government in England and Wales of the past, before the central government largely removed the discretion of local government and before the major parties converged ideologically at the local level. This system was in place until the 1970s. I now give a brief introduction to this setting. Then I provide an overview of the venerable literature testing for party effects on policy outputs in this setting. Next I present the research design and data and explain how I operationalize the hypothesis and which alternative explanations I exclude. Then I present the results of the statistical tests and evaluate their robustness. Finally, I summarize the findings and their implications for the theoretical argument developed in this dissertation.

A primer on pre-reform local government in England and Wales

There is a setting that comes close to fulfilling the ideal conditions for a test of whether there are party effects. The system of local government in England and Wales in the three decades after World War 2 was marked by the presence of two parties with clear and distinct policy positions. The local governments had discretion over which policies to emphasize (even though they could not design them since local governments in the United Kingdom have no power of legislating) and there were few formal barriers to swift policy change. At the same time there were well-established merit rules protecting professional appointed officials. I now introduce this setting by showing how these

favorable conditions developed over time, followed by a discussion of the role of professional officers.

Local government in England and Wales was not designed, it evolved the same way most other aspects of the British state did, “gradually and piecemeal over the centuries, uninterrupted by an invasion or violent revolution that might have prompted a more formal constitutional settlement” (Wilson and Game 2006, 49). Nevertheless there were a few important shifts during this process—punctuations if you will—that led to the system of local government examined in this chapter.

First, in 1835 the Municipal Corporations Act introduced direct elections to local office for larger towns and cities. Before this act, all of them were governed by corporations. Some of these held elections but in many boroughs incumbents simply appointed their successors. Only with the Municipal Corporations Act did elected councils become the standard across the land.

Second, in 1888 the Local Government Act established a system of elected county councils. Prior to the passage of this act, the rural counties had escaped the reforms introduced in 1835 and were still governed by unelected Justices of the Peace. The county councils were initially responsible for highway maintenance, asylums, weights and measures, and the police but their responsibilities grew substantially until the 1930s. The same act also established a system of county boroughs across England and Wales. In England, these were eighty-two towns with a population of 50,000 or more that now became all-purpose local governments, independent of the county councils. ‘All-purpose’ means that these local governments now covered all local

government functions, whereas in the past their corporations would only carry out minor regulatory functions not covered by the counties. At the end of the century the reforms also reached London with the creation of a London county council and twenty-eight subsidiary borough councils. Only the City of London, a square mile in the heart of the capital, retained its traditional governing arrangements⁴¹ (Byrne 1986, 14-5). The system of county councils and county borough councils would remain intact in its basic structure until the beginning of the 1970s, when many boundaries were redrawn and new local governments created following the passage of the Local Government Act 1972.

Third, during the first three decades of the twentieth century local governments steadily acquired more responsibilities. Amongst other services, they became responsible for public schools⁴² (1902), child welfare (between 1902 and 1919), and health services (between 1921 and 1930). In 1933 Parliament passed the Local Government Act, which consolidated these responsibilities. The Local Government Act symbolized the zenith of local government power and importance and the period between 1888 and 1933 is often referred to as the “golden age” of local government in Britain (Byrne 1986, 16-7) or as its “heyday” (Stevenson 1984, 309; cited in Gyford 1985, 83).

Finally, after World War II the Labour government of Clement Attlee removed important responsibilities from local government, in particular electricity and gas

⁴¹ To this day, the City has a unique system of representation found nowhere else in the United Kingdom: Its government, the City of London Corporation is elected both by the rather few residents living within the City (approximately 9,000 in 2009) and by businesses located within the City, which are appointed a number of voters depending on their size (City of London Corporation 2009).

⁴² I use the term public schools in the American sense, meaning schools that are provided by some governmental entity and that have open enrolment.

provision—which went to electricity and gas boards as part of Attlee’s government’s nationalizations—and health services, which were taken over by the new National Health Service (Byrne 1986, 17-8). Nevertheless, local governments in England and Wales retained responsibility for education, 95% of the highway network, child and adult welfare, leisure services, and the local police (Byrne 1986, 19-23). Local government also maintained limited but nevertheless significant discretion over which of these services to emphasize (Newton and Karran 1985, 77-80).

This discretion only truly came to an end in the 1980s with the Thatcher government’s reforms to local government financing, which abolished local discretion over anything beyond the margins of budgeting. The central government largely took over determining what each local government spends on the different budget categories (Stoker 2004, 28-29; Wilson and Game 2006, 18). In addition, the central government removed the provision of many services from local governments and handed them to appointed local boards, ‘Quangos’⁴³, and partnerships, as well as contracting out on a scale not seen for decades (Stoker 2004, 28-29) and creating an oversight agency for all local governments, the Audit Commission, which was established in 1982 (Stoker 2004, 36). The increases in central control reached an extent that made one observer suggest that “[ruling] colonies in the Empire was replaced by regulation of Britain’s internal colonies—its counties, towns and cities” (Hood et al. 1999, 98; cited in Stoker 2004, 35).

⁴³ ‘Quangos’—QUAsi Non-Governmental Organizations—are a variety of non-elected organizations to which the central government has devolved power. The term might be misleading but is in wide use amongst the public. The central government itself uses the term Non-Departmental Public Body, which is defined as “A body which has a role in the processes of national government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm’s length from Ministers” (Cabinet Office 1997).

Not only did local government's discretion over spending largely vanish in the 1980s, as discussed above, but in addition at the beginning of the twenty-first century traditional distinctions between the parties at the local level have also subsided. Britain's three major parties, Labour, the Conservatives, and the Liberal Democrats now share a broad consensus that local governments should strive for higher overall performance, in part produced by changes in party platforms but also to a large extent produced by the introduction of the Comprehensive Performance Assessment regime. Under this program, each local government in England has been graded annually by the Audit Commission since 2002/03. The grading scheme summarizes a vast array of performance indicators as well as inspector judgments into five broad-based scores ranging from "poor" (now expressed as zero stars) to "excellent" (now expressed as four stars) (Audit Commission 2002; 2005; Broadbent 2003).

The preceding discussion makes clear that any serious test for party effects has to be against data on a time period when local governments still had significant discretion over which services to prioritize. Consequently, such a test has to be against data from before the Thatcher government's reforms in the 1980s. The optimal window for a serious test for party effects is further delimited by the need for identifiable, strong parties with clearly distinct policy platforms. This began to be fully the case after World War 2.

While local councils had traditionally been dominated by independents and ratepayers' associations, toward the end of the nineteenth century the Conservative Party and the Liberal Party little by little established a presence in local government (Gyford

1985, 83). During the 1920s and 1930s the Labour Party increasingly took the Liberals' place, in part due to the near-doubling of the local government franchise in 1918 but also because of Labour's reorganization, allowing it to focus on individual constituencies, because of growing divisions within the Liberal Party, and because of a general lack of appeal—both in terms of policies and candidates—to working-class voters (Gyford 1985, 81-2). The interwar period also saw independents and ratepayers' associations retreat against both the Conservative and the Labour Party, which increased their presence on local councils. After World War 2, the hold of the two major national parties on local government rapidly expanded and then solidified during the 1950s and 1960s. A development that helped to support the rapid spread of the Labour Party was the removal of the utilities from the local governments, discussed above. Under probity rules, all municipal utility employees were banned from standing for office in their local government. Yet when the central government removed the utilities from local government control, these blue-collar employees became eligible to stand for office, and a substantial number did, for the Labour Party (Gyford 1985, 83). In the 1950s and 1960s, the national party organizations of both Labour and the Tories became involved in local politics and provided resources for their party's candidates. Candidates from these parties stressed differences in budgeting priorities in accordance with the national party platforms. At the same time, the vast majority of voters began to synchronize their national and local vote choices (Gyford 1985, 84-8). While this pattern was more pronounced in some elections where both Parliament and councils were voted on (note that council elections are always fixed in advance unlike elections to Parliament) than in

the majority of contests that were purely local, the pattern exists overall. In the 1970s the pattern became stronger, and it was further reinforced the discretion-eliminating reforms of the Thatcher government in the 1980s.

The strong presence of two ideologically distinct parties in English and Welsh local government in the decades after World War 2, coupled with discretion to implement them should make this a very responsive system. One would expect to observe strong party effects here. Yet there is another element of the same system that potentially counter-balanced the role of the parties and brought stability. This element is the role of professional officers protected by merit rules in preparing the budget. Whether these officers indeed dampened party effects—as one would expect based on an important assumption behind my theoretical argument—is the question of the empirical test I conduct below. First, however, I introduce the function of professional, appointed officers in local government in England and Wales.

As Byrne (1986) suggests, party groups in local government are often overwhelmed “with the size and complexity of their existing programmes” so that “much policy emerges instead from individual committees or the senior officers of the authority” (113). Local government officers were and are recruited on merit criteria, and disclosure rules exist to prevent favoritism and nepotism. Officers did then and do now enjoy security of tenure in return for the expectation to work impartially with all councils. Their political rights were (and remain) limited. In particular, they were (and are) not allowed to serve as an elected member of the council where they form part of the paid service (Byrne 1986, 173-7).

In summary, the presence of two parties with distinct policy platforms and the availability of discretion to implement them makes local government in England and Wales from the 1950s to the 1970s an ideal setting to test for the presence of party effects. Indeed, many researchers realized this. Consequently, there is a large body of existing research testing for party effects in this setting. I will now briefly discuss it and show that a specific methodological limitation inherent in the existing studies may have overestimated the presence of party effects. Consequently, there is a need for a fresh analysis, which I conduct later in this chapter.

The search for party effects in British local government

Going back at least as far as Oliver and Stanyer (1969), a large number of studies of British local governments have tested whether policy outputs differed depending on the party in control or the strength of the parties on a council. Boyne's (1996b) systematic review of fifty studies suggests that while a majority of studies find evidence in accordance with the hypothesis that Labour Party administrations spend more than others and that a greater seat share held by Labour is positively associated with spending, these findings are not clear-cut (237-42). Additionally, most of these studies are unable to remove a host of alternative explanations due to differences between local governments that are not fully controlled for. There is merit, then, to dust off some of the old data and conduct a new test for party effects, taking advantage of advances in methodology that have occurred since the party effects literature passed its heyday.

Boyne (1996a, 126-7) explicates the different views in the literature on how to conceptualize parties. The main distinction lies between two camps. On one side are those who see party effects occurring through a dichotomous difference between holding the majority of seats on a council—being in overall control—and being in the opposition. On the other side are those who see party effects taking place through gradations of seat strength, where the greater a party's majority is, the greater its impact on policy will be because the greater the majority, the greater the confidence to stay in control after the next election and to be able to indulge in ideological preferences as opposed to approaching the median voter.

In terms of dependent variables, the largest number of studies examine overall spending. The next-largest group focuses on differences on policy emphasis between Labour-controlled and Tory-controlled councils (Boyne 1996b, 237-43). Amongst the latter studies, there is a consensus that during the 1950s and 1960s Labour placed its main emphasis on socially ameliorative services such as children's services, council housing, social welfare, and education (Boaden 1971, 71-3; Sharpe and Newton 1984, 178), while the Conservatives placed greater emphasis on property-related services, most importantly the police and fire services (Boaden 1971, 88-9).

The main alternative explanation for variation in policy emphasis is demand, which itself is largely a function of socio-economic variables (Boyne 1996a, 43-74). Demand can be partitioned into two components: (i) relatively fixed differences between local governments in terms of their demand, i.e. persistent socio-economic structures and

local political cultures⁴⁴, and (ii) changes in demand following from changes in the over-time socio-economic development of local areas. Neither of these is easy to measure, but the former is particularly difficult to capture sufficiently because it likely contains components that are not included in existing data, so-called unobserved heterogeneity.⁴⁵ Precisely herein lies the key problem with the existing literature testing for party effects. None of these studies excludes unobserved heterogeneity. It is intuitive that the same reasons that might create a greater demand for welfare-oriented services in certain local governments might also lead Labour to be far more likely to control these local governments. Control variables for demand rarely sufficiently capture these unobserved reasons driving both the demand for services and electoral support. Yet by ignoring them it is quite possible that an apparent party effect is simply an artifact created by the unobserved heterogeneity. There is, then, a need for a fresh analysis that guarantees to remove this alternative explanation. In the next section I describe how I conduct this analysis.

The large literature on party effects tests whether a change from one party to another brings about significant policy change. If this is truly the case, the idea that appointed officials operating under merit rules provide policy stability can be considered refuted. Yet since the existing literature is limited methodologically, one cannot draw this conclusion. Rather, it is necessary to await the result of my analysis. I now describe the research design I use, the data I draw upon, and the statistical methods I employ.

⁴⁴ An analogous example from research comparing the U.S. states is the commonly used dummy variable for former members of the Confederacy.

⁴⁵ This is an example of omitted variable bias, yet the nature of the omitted variables is unknown, they are not measured, and they may even be immeasurable.

Research design, data, and methods

I use statistical panel data analysis of existing data on local governments in England and Wales in the 1950s and 1960s. As discussed above, this is an excellent setting to test for party effects because there were two major parties in this system: the Conservative Party and the Labour Party. While nowadays Britain is a three-party system at the local level, with the Liberal Democrats governing a substantial number of local governments alone or in coalition, during the 1950s and 1960s this party did not yet exist.⁴⁶ Nor was there any other major party to rival either Labour or the Conservatives.

This setting has a number of characteristics. Candidates for council seats were (and still are) selected by local party committees (Wilson and Game 2006, 307).

Having access to several waves of data on these local governments allows me to sweep out all relatively fixed differences between local governments in terms of their demand, i.e. persistent socio-economic structures and local political cultures and thus to remove the major validity threat all existing party effects studies face. Indeed, the ability to isolate time-invariant omitted or unobservable characteristics of people or organizations is often considered the main advantage of using panel data.

All variables that I use in this study stem from Ashford (1974).⁴⁷ This is a seven-period panel data set. The first period covers the 1949 elections and relevant other variables from the same year. The second period covers the 1950, 1951, and 1952

⁴⁶ The Liberal Democrats were founded in 1988 through the merger of two then rather anemic parties, the old Liberal Party and the Social Democratic Party (SDP), which itself came about when a number of leading centrist politicians left Labour (Russell and Fieldhouse 2005, 30-3).

⁴⁷ I transformed the data from punch-card format to a modern panel data format, where one row contains one observation on one local government at one time period.

elections and the three-year average of relevant other variables. Similarly for the other three-year periods ending in 1955, 1958, 1961, 1964, and 1967. The reason for the three-year period is that during the time frame of this study, there were annual elections for a third of the council every year, and councillors served three-year terms. These elections were ward-based: Each local government area was divided into wards, and each ward contained three council seats. Within each ward, the contests were always first past the post. Local party committees nominated candidates for ward elections. The three-year terms of the councillors serving each ward were staggered such that the whole electorate of the city was able to vote every year. There were no mayoral elections, since all local governments operated under the council-manager system and the mayor was simply a ceremonial post. The odds of re-election of any given individual councillor were substantially greater than even. Unfortunately, for the local governments examined in this study, no research exists as to the precise extent of re-election rates of councillors. Nevertheless, two facts are known that allow for the conclusion that re-election rates of councillors were far in excess of 50%: In the 1960s, nearly half of all councillors had held their seats for ten years or more, and research from the 1990s indicates that incumbents were between one-and-a-half (London boroughs) and two times (rural district councils) more likely to win their seat than non-incumbent challengers, with a greater advantage for Conservative Party incumbents and a lesser advantage for incumbents with other affiliations (Rallings and Thrasher 1997, 79-81). The high likelihood for re-election implies that the elected councils of the local governments covered by this study were not mainly filled by inexperienced newcomers

who could be expected to be steered by officers. Rather, there was a sufficient proportion of experienced councillors to provide governing parties the capacity for political control of appointed officers.

I now introduce the variables in my statistical models.

Dependent variable: Left/Right ratio

I create an indicator of policy emphasis to capture the relative weight accorded to a policy close to the heart of the Labour Party's preferences compared to a policy close to the heart of the Conservative Party's preferences. I create this variable, the Left/Right ratio, by dividing a core Labour budget item by a core Conservative budget item. The numerator is made up of per-capita expenditure on a core concern of Labour: child welfare. Child welfare services are an element of the welfare state introduced by Attlee's Labour government after World War 2. This service extends mostly to less-well-off families and has been a part of Labour's manifestos since then. On the other hand, the Conservative Party, while not opposed to child welfare services, has not accorded them such a high priority (Boaden 1971, 71-3). Expenditure on child welfare services, then, neatly divides the two major parties and with a responsive bureaucracy, differences should soon be reflected in budgets after a change in party control. The denominator is made up of per-capita expenditure on a core concern of the Conservatives: the police. Again, while neither of the two major parties is opposed to providing necessary funding for the local police force, for the Conservative Party they had a higher priority, while during the period covered in this study they were secondary to social welfare concerns for the Labour Party (Boaden 1971, 88-9). As with child

welfare services, with a responsive bureaucracy, the budget for the local police force should change soon after a change in party control. While either of these might be ‘sticky’ in that their budget would be easier to increase than to decrease, there is no evidence to suggest that either of them would be any stickier than the other.

Key explanatory variables: party indicators

I use dummies for Conservative Party control of a council and Labour Party control of a council in all specifications. I also test for seat share effects by including the percentage of council seats held by the Conservative Party and the percentage of council seats held by the Labour Party, as a moderator of party control only in specification (2), and as a moderator of party control as well as additively in specification (3), to capture the different theoretical points of view on party influence elaborated by Boyne (1996a, 126-7). All party variables are lagged one period because of the time delay in developing and passing a budget after winning an election, which takes at a minimum nearly one year.

Controls

Four sets of alternative explanations for any party effects are controlled for by the models estimated here: (i) incrementalism; (ii) demand; (iii) differences between the local governments that remain constant throughout the period of this study; and (iv) common shocks. Incrementalism, the key characteristic of most budgeting processes in prosperous countries (Danziger 1978, 125-8; Wildavsky 1975, 6-12), is accounted for by the lagged dependent variable. Demand is modeled by the per capita rateable value of

the dwellings in the local government's jurisdiction.⁴⁸ Common shocks such as economic downturns and crime waves are accounted for by including period dummies.

All variables are summarized in Table 1. The figures refer to the estimation sample shared by all models reported in this chapter. The sample covers 401 observations on 137 local governments. Among these are 45 administrative counties and 76 county boroughs in England, and 12 administrative counties and 4 county boroughs in Wales.

Since I control for past values of the left/right ratio, special care is required in estimating the model. In the presence of a lagged dependent variable, pooled ordinary least squares (OLS) is consistent only if there is no unobserved heterogeneity—time-invariant differences between local governments that are not fully measured—and no serial correlation.⁴⁹ If there is unobserved heterogeneity, the coefficient on the past value of performance will tend to be exaggerated, and because of the correlations between the lagged dependent variable and the other explanatory variables, the upward bias on the lagged dependent variable will also lead to potentially misleading coefficient estimates on the other explanatory variables.

⁴⁸ Rateable refers to the rates, a local property tax dating back to the Elizabethan Poor Law of 1601 (Wilson and Game 2006, 49). The rates were abolished by the Thatcher government for Scotland in 1989 and for England and Wales in 1990 but the replacement, the infamous poll tax, proved so unpopular that in 1993 the rates were resurrected in a somewhat modified form as the council tax (Wilson and Game 2006, 219-21).

⁴⁹ Pooled OLS with a lagged dependent variable is still a better estimator than fixed effects with a lagged dependent variable: Not only is the latter estimator always inconsistent in panels with few time periods but the distortions it induces are very substantial, as Nickell (1981) demonstrates.

Table 1: Summary statistics for the estimation sample shared by all models—401 observations on 137 local governments

	Mean	Standard deviation	Minimum	Maximum
<i>Dependent variable:</i>				
Left/Right ratio	0.25	0.11	0.04	0.76
<i>Components of the dependent variable:</i>				
Child welfare expenditure per capita (in £)	0.66	0.28	0.20	2.00
Police expenditure per capita (in £)	2.94	1.22	0.80	7.40
<i>Explanatory variables:</i>				
Conservative Party control of a council (dummy)	0.23	0.42	0	1
Labour Party control of a council (dummy)	0.35	0.48	0	1
% councillors of the Conservative Party	31.3	23.4	0	100
% councillors of the Labour Party	39.5	23.8	0	100
Rateable value of all dwellings, per capita (in £)	29.8	13.5	8.2	69.5

To avoid this problem, I use an instrumental variables estimator. It controls for unobserved heterogeneity and removes the bias that any correlation between the unobserved heterogeneity and the lagged dependent variable might have induced in the coefficient on the lagged dependent variable. This estimator was developed by Arellano and Bond (1991), building on earlier work by Anderson and Hsiao (1981).

Findings

I now present the results of the statistical tests and evaluate their robustness. All three models test the hypothesis that differences in party control or strength are reflected in subsequent differences in policy emphasis, in other words the hypothesis that there are party effects. The null hypothesis, on the other hand, is in accordance with the assumption that appointed officials operating under merit rules create stability, which underlies the theoretical argument presented in this dissertation. The results from estimating all three specifications are presented in Table 2. The table contains the coefficient estimates and standard errors as well as a number of diagnostics, all of which I discuss in turn.⁵⁰

⁵⁰ While the data set has seven waves, the estimation sample only covers three time periods. This is because one time period is used up to sweep out fixed differences between authorities, which is done by differencing. A second time period is used up for the lagged dependent variable. A third time period is used for the second lag of the dependent variable, which is always required as an instrument in any autoregressive panel data instrumental variables estimator. In addition, I also use another time period for a third lag of the dependent variable, which was indicated by the diagnostic test described below. While I use four out of seven time periods for auxiliary purposes, the assumptions I have to place on the data-generating process are reduced compared to simpler estimators. In a sense, this is a choice between drinking from a relatively small bottle of verifiably purified water or from a large bathtub with water of unknown quality. There is far more water in the bathtub, and it may be perfectly healthy, but I cannot test that and so would have to assume it. On the other hand, I have to make no such assumptions about my bottle of verifiably purified water.

Table 2: Results of autoregressive models explaining the left/right ratio

	(1)	(2)	(3)
Left/Right ratio $t-1$	0.739 (0.337)	0.767 (0.352)	0.759 (0.376)
Left/Right ratio $t-2$	-0.191 (0.533)	-0.191 (0.503)	-0.275 (0.572)
Left/Right ratio $t-3$	-0.196 (0.102)	-0.201 (0.099)	-0.220 (0.120)
Conservative control $t-1$	0.007 (0.013)	0.003 (0.083)	0.014 (0.082)
Labour control $t-1$	0.011 (0.016)	0.049 (0.046)	0.017 (0.089)
% councillors of the Conservative Party $t-1$			0.000 (0.001)
% councillors of the Labour Party $t-1$			-0.001 (0.001)
(Conservative control \times % councillors of the Conservative Party) $t-1$		0.000 (0.002)	-0.000 (0.001)
(Labour control \times % councillors of the Labour Party) $t-1$		-0.001 (0.001)	-0.000 (0.002)
Joint test of H0: "Party seat share at t-1 does not matter"			p = 0.936
Joint test of H0: "Party control at t-1 does not matter"	p = 0.622	p = 0.798	p = 0.901
Rateable value of all dwellings, per capita (in £) $t-1$	0.005 (0.006)	0.005 (0.006)	0.006 (0.007)
Year dummy for 1961	0.002 (0.060)	0.006 (0.060)	0.002 (0.065)
Year dummy for 1964	-0.014 (0.103)	-0.010 (0.099)	-0.024 (0.112)
Year dummy for 1967	-0.132 (0.258)	-0.122 (0.248)	-0.158 (0.283)
General F-statistic	16.81	14.89	9.88
p-value	p < 0.0001	p < 0.0001	p < 0.0001
Arellano-Bond test for AR(1) in first differences: z-statistic	-1.26	-1.27	-1.28
Arellano-Bond test for AR(2) in first differences: z-statistic	-0.15	-0.19	-0.00
Number of instruments	12	14	16
Tests of overidentifying restrictions:			
p-value of Sargan test	p = 0.785	p = 0.772	p = 0.813
p-value of Hansen test	p = 0.766	p = 0.749	p = 0.801

Huber-White standard errors are provided in parentheses beneath the coefficient estimates. All models are estimated on a common sample of 401 observations on 137 local governments, using Roodman's (2006) implementation of Arellano and Bond's (1991) method.

First and foremost, the above specifications show no evidence at all of party effects, neither in terms of party control nor in terms of party strength. Specification (1) simply tests for an effect of party control of a council. In this specification, there is no statistical relationship between either Conservative or Labour control of councils and the Left/Right ratio. Specification (2) tests for an effect of Conservative or Labour control, moderated by the seat share of the incumbent party. Conservative control and its interaction with Conservative seat share are jointly statistically insignificant, as are Labour control and its interaction with Labour seat share. Even the null hypothesis that all party variables are jointly equal to zero is not rejected. The same picture emerges in specification (3), which tests for party effects both in terms of control, moderated by seat share, and seat share in itself. Conservative control, its interaction with Conservative seat share, and Conservative seat share by itself are individually and jointly statistically insignificant, as are Labour control, its interaction with Labour seat share, and Labour seat share by itself. And again, even the null hypothesis that all party variables are jointly equal to zero is not rejected. In summary, there are no party effects in these data. In addition, the per-capita rateable value of all dwellings, the proxy for the time-varying component of demand for police services, is also statistically unrelated to the Left/Right ratio. This is in accordance with the idea that much of the differences in demand for police services reflect rather persistent characteristics of jurisdictions.

While the null findings do not depend on which theoretical understanding of party influence is used, it would be premature to draw conclusions about the lack of evidence of party effects before examining model diagnostics. There are two important

diagnostics for the Arellano-Bond estimator: Is there evidence of second-order autocorrelation of the residuals in first differences? And is there evidence that any of the instruments are invalid?⁵¹ If either of these occurs, the model results cannot be accepted and remedial action needs to be taken.

The first diagnostic is a test of second-order autocorrelation in the first-differenced residuals. If the assumptions behind the Arellano-Bond estimator are fulfilled, one may see statistical evidence of negative first-order autocorrelation but there will be no second-order autocorrelation. The presence of second-order autocorrelation would indicate a problem because under the model assumptions, $E[\Delta\epsilon_{it} \Delta\epsilon_{i,t-2}] = 0$.

The second diagnostic is a check of whether the instruments used to purge the correlation between the lagged dependent variable and the error term are valid, i.e. whether they indeed are uncorrelated with the error term. In principle, this is a theoretical, not a statistical question. Yet when there is an excess number of instruments, i.e. more than would be necessary to just identify the equation, one can indirectly test instrument validity, which is what the Sargan test does. Suppose only two instruments are required but there are three instruments. Under the assumption that two of the instruments are valid, the Sargan test checks whether the third instrument is validly excluded from the equation. Under the null hypothesis of over-identification, the Sargan test statistic is χ^2 -distributed with the degrees of freedom equal to the number of excess instruments. Unfortunately, if the null is rejected, it is not possible to say which

⁵¹ The rationale for including a third lag of the dependent variable is precisely this: If only the standard two lags are included, the Sargan test (discussed below) shows some indication of instrument invalidity. This problem is remedied by including a third lag of the dependent variable. The coefficient estimates are substantively unaffected by whether or not this extra lag of the dependent variable is included.

of the instruments is invalid. Additional information would be required to answer this question. Verbeek (2008, 156, fn. 16) presents a nice analogy for this problem:

“Suppose a pub allows you to buy three beers but pay for only two. Can you tell which of the three beers is the free one?” Of course one can only tell if one has additional information. For example, if one of the beers was cheaper than the two others and the pub followed the rule that the cheapest beer is free, one would know. Yet if all three beers cost the same, one would only know that one of them is free, not which one.

My null finding, consistent with the absence of party effects in a setting that would appear very conducive to them, indirectly lends support to the assumption that appointed officials operating under merit rules create stability, and thus indirectly lends empirical support to the theoretical arguments presented in this dissertation. I now proceed to the chapter’s conclusions.

Conclusions

In this chapter, I probed one of the assumptions behind the theoretical argument of this dissertation: Appointed officials operating under merit rules create stability; in other words, they maintain values regardless of which party governs. The major suggestion from the theoretical argument was that they maintain the value of rule-based distribution of public funds and favors. Yet to test the assumption *per se*, I conducted a stronger test—albeit indirectly—of whether professional civil servants also maintain certain policies. That is, I tested whether there were party effects—systematic differences in policy emphasis between two parties with clear differences in their policy platforms.

Panel data on English and Welsh local governments in the 1950s and 1960s, an ideal setting for this test, showed no evidence of party effects. This null finding coupled with existing qualitative research on the important role of senior officers in preparing local government budgets—for instance, see Elcock's (1986) findings about the dominance of officers in the budget processes of several local governments—suggests the assumption that appointed officials operating under merit rules create stability is not blatantly false. This somewhat encouraging result marks the finishing line of the empirical investigations conducted as part of this dissertation. It is now time to re-examine the problem that inspired this dissertation, the theoretical argument, how it is illuminated and affected by the empirical investigations I conducted, and to ponder a lesson for scholarship. These are the topics of chapter V, the concluding chapter of this dissertation.

CHAPTER V

CONCLUSION

It is now time to re-examine the problem that inspired this dissertation, the theoretical argument, how it is illuminated and affected by the empirical investigations I conducted, and to briefly ponder a lessons for scholarship.

As I lay out in chapter I, I was motivated to write this dissertation by the existing and potential failures of governments across the globe, past and present, to adequately provide the most basic public goods and at the same time the potential or actual abuse of the fruits of citizens' labor or even of citizens' freedom for the gain of officials. I concluded that a problem of credible commitment lay at the heart of these government failures, and I went on to examine it in this dissertation.

In chapter II I tackle the credible commitment problem of politicians theoretically. I show that whenever politicians are perceived to have the possibility of diverting public funds into their own or their friends and supporters' pockets, this perception reduces both the welfare of the average citizen and their own. To avoid this, politicians will try to credibly lock themselves out from the possibility of diverting public funds into their own or their friends and supporters' pockets. This lock-out is created by delegating the details of policy implementation to civil servants operating under merit rules. I show that a merit civil service can function as a commitment device for politicians because merit civil servants differ from politicians in two ways: (i) they have no incentive to divert funds or be arbitrary and capricious because strong sanctions

await them if they do, and (ii) many of them are different types of people from politicians. I then theoretically examine the introduction and survival of a merit civil system. Based on a simple model of the ongoing interaction between parties I show that: (i) merit civil service reform is less likely to occur without party competition or the threat thereof; (ii) merit civil service reform is a possible but not a necessary consequence of repeated interactions of organized parties; (iii) the politician lock-out produced by a merit civil service is never definite and may fall apart even if it has been in place for a very long time; and (iv) delegation to merit civil servants by itself can never insulate policies and any claim to the contrary is spurious. The main lesson from the chapter is, given this theoretical argument, as long as politicians are willing to continue to cooperate, merit civil services allow them to credibly commit to lock themselves out from the details of policy implementation. Yet delegation to merit civil servants does not lock in policies.

In chapter III I apply the theoretical argument developed in chapter II to Mexico, a case where it should work since a strong commitment problem is present from which the majority of the population suffers and since the country recently democratized, bringing with it the onset of party competition, which would allow for the development of a new merit civil service as a commitment device. To some extent the theoretical argument describes Mexico's recent experience well yet some doubts remain of the durability of the new merit civil service. The chapter begins with a discussion of how Mexico's political and administrative history has created a situation of severe distrust in public officials, which has become an urgent problem because the country is now a

competitive democracy. Then I show how parties managed to cooperate to pass the federal merit civil service law in 2003 and how they have thus far cooperated enough to allow it to begin to be implemented. Also I conduct a test of whether the new service has been mainly used to lock in loyalists of the presidential party, for which I do not find evidence. I then examine the precariousness of Mexico's young service. Finally, I evaluate the importance of party organization for the creation and maintenance of a merit system by comparing the success of the two merit systems of the two chambers of the Mexican congress and probing how important party organization is for it. I argue that the greater experience and longer terms of senators facilitate cooperation between them and how their merit system for legislative staff is better implemented than that of the Chamber of Deputies with its shorter terms and generally less-experienced legislators. Overall, most findings in chapter III are in line with the theoretical argument developed in chapter II.

In chapter IV, I probe one of the assumptions behind the theoretical argument of this dissertation: Appointed officials operating under merit rules create stability. I test it indirectly by testing whether there were party effects—systematic differences in policy emphasis between two parties with clear differences in their policy platforms. Panel data on English and Welsh local governments in the 1950s and 1960s, an ideal setting for this test, show no evidence of party effects. This null finding coupled with existing qualitative research on the important role of senior officers in preparing local government budgets suggests the assumption that appointed officials operating under merit rules create stability is not wrong.

Finally, in appendix B I take a short but important detour to introduce the counterfactual framework of causality. I use this framework to show the beauty of random assignment and, in a very elementary fashion, the biases that arise when random assignment is not possible. After that I suggest a broad classification of public administration research according to three standards of evidence. I conclude with a statement about the standard of evidence that the two empirical applications in my dissertation fall under.

Having survived two empirical applications, what lesson does the theoretical framework developed in chapter II contain? And what research could be conducted to build upon the work begun here? These questions are the topic of the next and final section.

A lesson and an outlook

A lesson emerges from the idea of merit civil services as a commitment device: The focus of much of the political science literature on the alleged conflict of interest between elected and appointed officials misses the much larger problem of the potential defection by politicians, as well as the problems this creates for them, has reached a point of diminishing marginal utility. Instead of continuing in this vein, research on the national politics of wealthy, long-established democracies could benefit from considering true principal—the citizens—rather more as opposed from viewing elected officials as the principal and appointed officials as the agent, assuming away any problems that might arise from a potentially increasing unwillingness of the true

principal to cooperate with their elected agents due to mistrust. For research on relatively young democracies, such as Mexico with its long history of rule by one hegemonic party, or other Latin American countries with a history of dictatorial and military rule, the development or lack thereof of citizens' trust in elected officials and how it relates to administrative reform is a more fruitful avenue for research than attempts to copy existing research on political control of the bureaucracy in the U.S.

The ideas and the research in this dissertation could be extended in a number of ways. First, it is not only politicians who have a commitment problem. As Acemoglu and Robinson (2006) argue, existing elites who would like to protect some of their wealth in the face of a potentially rebellious general population, sometimes commit to wealth-sharing by agreeing to democratize. They also suggest that prevalent sources of income matter, with more easily expropriated income sources making democratization more difficult. The argument advanced here could be connected to democratization more generally by showing that existing elites can add to or undermine the success of a democracy by helping or hindering the development of a bureaucracy that serves poor and rich citizens alike. As a second extension to the research in this dissertation, a follow-up study of the Mexican federal merit system could track the progress in its implementation and relate it to changes in the party configuration of Congress and after 2012, possibly also the presidency. A further extension to the research in this dissertation could be a comparison of Mexico's experience with merit system reform with that of Argentina. Both countries share a similar widespread distrust of politicians, and both introduced government-wide merit system reform fairly late, compared to other

Latin American countries—Argentina in 1991/92 (Ferraro 2006) and Mexico in 2003/04. The Argentine reform came to a halt after the hiring of the first cohort. It will be interesting to see whether the even greater control of party leaders over legislators in Mexico than in Argentina⁵² might contribute to a different outcome there. Finally, more direct tests of the theoretical argument could be developed, using quantitative and qualitative data on the American states over time.

⁵² Both countries have closed-list ballots, yet unlike Mexico, Argentina does have immediate re-election. While only about 20% of legislators are re-elected, those who are all have passed the high hurdle of obtaining a spot on their provincial party list (Jones et al. 2002, 658). This indicates a degree of political skill among the re-elected legislators, which should produce a somewhat different dynamic in the Argentine congress than in its Mexican counterpart.

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APPENDIX A

INTERVIEWS CONDUCTED DURING FIELDWORK IN NOVEMBER 2007 THAT
ARE REFERRED TO IN CHAPTER III

- Senior official in the Public Function Department (now a merit civil servant, formerly a political appointee), November 7, 2007
- Technical Secretary (political appointee), Chamber of Deputies, November 9, 2007
- Advisor of the Chamber of Deputies' mesa directiva (the approximate equivalent of the Rules Committee in the U.S. House of Representatives), November 14, 2007
- Advisor of the Chamber of Deputies, November 16, 2007
- Director general in the Chamber of Deputies (political appointee), November 20, 2007
- Former senator (2000-2006), November 21, 2007
- Area director in the Senate (merit civil servant), November 23, 2007

APPENDIX B

UNDER WHAT CONDITIONS CAN WE SPEAK OF A CAUSAL EFFECT? A

PHILOSOPHY OF SCIENCE DISCUSSION

The present appendix consists of a brief discussion of the problem of causal inference in research on public administration. The purpose of this discussion is to develop and retain some awareness of the limits on the inferences that can be drawn from my dissertation as well as most other research in the discipline. First, I introduce my understanding of causality. I subscribe to the counterfactual framework of causality because of its intuitive yet rigorous formulation. Then I use the counterfactual framework to show the beauty of random assignment and, in a very elementary fashion, the biases that arise when random assignment is not possible. After that I suggest a broad classification of public administration research according to three standards of evidence. I conclude with a statement about the standard of evidence that the two empirical applications in my dissertation fall under.

How do we know that something affects program performance? A problem of causal inference

Over the past twenty years, many academics have begun to investigate what affects the performance of public organizations and services.⁵³ They have proposed a number of factors, among them institutional and organizational design, political competition, characteristics of managers, managerial strategy, and citizen involvement (for an overview, see Boyne et al. 2006). To give a generic example, providing special incentives for employees should lead to higher organizational performance. It is a more than formidable task to truly answer the question, ‘what are the causes of high organizational performance?’ There may be a multitude of factors apart from special incentives for employees that might have an effect and one would face an infinite amount of work trying to find them all. The question about the causes of organizational performance illustrates the traditional approach to explaining phenomena that dates back to Aristotle, who emphasized searching for the causes of phenomena over examining the effects of certain causes (Holland 1986, 950). This traditional approach can never be completely executed by humans. That is a quite provocative insight given the preference many social scientists hold for “Why?”-questions. A more modest goal would be to ask whether any one of the factors hypothesized to affect performance, such as whether providing special incentives for employees truly affects organizational performance. In

⁵³ Most people understand performance in the public sector as having several dimensions, including effectiveness, efficiency (understood in terms of achieving a given target at least cost), and equity. Boyne (2002) even lists fifteen dimensions of performance in the public sector: quantity of outputs, quality of outputs, cost per unit of output, formal effectiveness, impact, equity, cost per unit of formal effectiveness/impact/equity, consumer satisfaction, citizen satisfaction, staff satisfaction, cost per unit of consumer/citizen/staff satisfaction, probity, participation, accountability, and cost per unit of probity/participation/accountability (19).

other words, is organizational performance a causal effect of providing special incentives for employees? By and large, the only feasible way to answer this question is to conduct observational studies. An observational study has two characteristics:

- (i) The objective is to elucidate cause-and-effect relationships, or at least to investigate the relationships between one set of specified variables x_i and a second set y_i in a way that suggests or appraises hypotheses about causation.
- (ii) It is not feasible to use controlled experimentation, in the sense of being able to impose the procedures or treatments whose effects it is desired to discover, or to assign subjects at random to different procedures. Some randomization may be employed, however, e.g. in selecting for measurement a random sample from a population that seems suitable for the enquiry at hand.

(Cochran 1965, 234).

All public administration studies that are concerned with learning about causal effects and that do not use controlled experimentation are observational. Thus, at least 95% of the existing knowledge about causal effects in the field stems from observational studies.

The subject matter of this chapter is causal inference. I draw on Winship and Morgan's (1999) unified introduction to causal inference. It is a synthesis of the conceptual framework that many statisticians (e.g., Donald Rubin) and econometricians (e.g., James Heckman) use to talk about causal inference (660), and that is also slowly entering political science (for instance, see King, Keohane, and Verba, chapter 3; Collier, Brady, and Seawright 2004). It has yet to be received in public administration and public management but this can only be a matter of time. Winship and Morgan

(1999) explain the validity problems facing observational studies and evaluate various approaches to tackle these problems.

Throughout this chapter, suppose the alleged causal factor was measured by a binary indicator X ,

$$X = \begin{cases} 1 & \text{if the alleged causal factor is present in the org.,} \\ 0 & \text{if the alleged causal factor is not present in the org.} \end{cases}$$

Instead of a ‘yes/no’ distinction, one could also have a distinction between high levels of the alleged causal factor and low levels of the alleged causal factor. The conclusions would be the same. In principle, they also carry over to continuous independent variables. In practice, most applications have so far remained focused on a binary indicator such as X because it keeps the math simple, yet generalizations to causal factors that can take on more than two values have begun to appear (for instance, see Imai and van Dyk 2004).

Let the presence of the alleged causal factor ($X=1$) be the *treatment*, and the absence of the alleged causal factor ($X=0$) be the control. Using this language of experimentation helps to clarify the issues involved in making causal inferences, no matter whether one designs a controlled experiment or an observational study. When can one say that the treatment has a causal effect on organizational performance?

Let Y be the continuous indicator of organizational performance, the *outcome* variable. Assume that each organization could be exposed a priori to either the treatment ($X=1$) or the control ($X=0$). Assume there is a set of organizations. Now partition this set of organizations into two groups: some receive the treatment and the others receive

the control. It is tempting to think that one could now look at the difference between the average organizational performance of the treatment group and the average organizational performance of the control. Yet this will have to be seen.

First, an assumption needs to be made, which I call the *most important assumption*:

Most important assumption

Each organization has *potential* outcomes for both $X=1$ and $X=0$, meaning that while some organizations are only observed with the treatment and the corresponding level of performance, hypothetically these organizations would also have had a level of performance had they been observed with the control instead. Similarly, while some organizations are only observed with the control and the corresponding level of performance, hypothetically these organizations would also have had a level of performance had they been observed with the treatment instead.

To give an example, suppose one could observe that a municipal government is in the treatment group this year—it uses a hypothesized causal factor, say a set of special incentives for its employees ($X=1$). Also, one observes the municipal government's performance on cost per unit of service output (an indicator of the outcome 'organizational performance'). Under the *most important assumption*, that municipal government *would also have had* a cost per unit of service output this year if it had been in the control group, i.e., if it had not used the special incentives for its employees ($X=0$) this year. The causal effect of X on the municipal government's cost per unit of service output is the difference between the cost per unit of service output when $X=1$ and the

cost per unit of service output when $X=0$. Of course, one can *never* observe the same organization at the same point in time with both the treatment and the control. This is the *fundamental problem of causal inference* (Holland 1986, 947), and it is obvious that *no* research design made by humans can solve it directly.

In shorthand, for an organization with the generic name i , let Y_i^T be the potential outcome for i when it receives the treatment and Y_i^C be the potential outcome for i when it receives the control. Both Y_i^T and Y_i^C exist as potential outcomes for i , but one can only observe one of them. The causal effect of X on i (denoted δ_i) is the difference between these two potential outcomes:

$$\delta_i = Y_i^T - Y_i^C \quad (1)$$

This δ_i is an unobservable quantity for any individual organization i . But it may be possible to get an idea of the ‘typical’ causal effect by making several observations. For example, it might be interesting to know what the average causal effect of a population of organizations is. If one averages over all of these organizations’ causal effects, the result is

$$E[\delta] = E[Y^T - Y^C]. \quad (2)$$

Unfortunately one cannot take the mean of many unobservable individual causal effects because one would need to know these unobservable quantities in order to sum over them. However, one can distribute the expectations operator to obtain

$$E[\delta] = E[Y^T] - E[Y^C]. \quad (3)$$

In principle, equation (3) can be estimated because both the average performance of the organizations that do get special incentives for their employees and the average performance of organizations that do not get it can be observed.

Now, how can one do this? Let $E[Y^T|X=1]$ be the expected potential performance with special incentives for their employees for organizations that are assigned to have special incentives for their employees. Y^T is conditional on being assigned to have special incentives for their employees because it is not guaranteed that the potential performance with special incentives for their employees of organizations *that are assigned* special incentives for their employees is the same as the potential performance with special incentives for their employees of organizations *that are not assigned* special incentives for their employees. What I mean by *assignment* will become clear below. Similarly, $E[Y^C|X=0]$ denotes the expected potential performance without special incentives for their employees for organizations that are assigned *not* to have special incentives for their employees. In addition, it is necessary to consider two not very intuitive quantities: $E[Y^T|X=0]$ (the expected potential performance for organizations *with* special incentives for their employees that are assigned *not* to have special incentives for their employees) and $E[Y^C|X=1]$ (the expected potential performance for organizations *without* special incentives for their employees that are assigned to *have* special incentives for their employees). This may seem odd, but it follows from the *most important assumption*. Indeed, it is not odd at all since it allows one to use equation (3) to devise estimators for causal effects. For example, it allows us to come up with estimators for $E[\delta]$, the *average treatment effect in the population*.

Before considering possible estimators, however, it is necessary to introduce an assumption that needs to hold whenever someone wants to make a causal inference:

Stable Unit Treatment Value Assumption (SUTVA)

If one organization previously without the treatment now receives the treatment, this change does not affect the potential performances of the other organizations. Or, more generally, a change in treatment status of any organization has no impact on the potential outcomes of other organizations.

SUTVA may be violated when the treatment has important effects reaching beyond the treated organizations. Winship and Morgan (1999) give an example:

“Consider the case where a large job training program is offered in a metropolitan area with a competitive labor market. As the supply of graduates from the program increases, the wage that employers will be willing to pay graduates of the program will decrease” (663).

Let p be the proportion of our population of organizations that are assigned the treatment, special incentives for their employees ($X=1$). Since all organizations in the population either have or do not have special incentives for their employees, $1-p$ is the proportion of the population of organizations that are assigned to get the control, i.e., not to have special incentives for their employees ($X=0$). And let $E[\delta|X=1]$ be the expected *treatment effect on the treated*, the difference between potential $E[Y^T|X=1]$ and potential $E[Y^C|X=1]$. There are often situations where the *treatment effect on the treated* is the most relevant quantity of interest; for example if we would like to know whether the adoption of a formal performance measurement system by a number of organizations

improves the performance of these organizations. Similarly, let $E[\delta|X=0]$ be the expected *treatment effect on the untreated*, the difference between potential $E[Y^T|X=0]$ and potential $E[Y^C|X=0]$. In some instances the treatment effect on the untreated would be a relevant quantity of interest, for instance if one wanted to know whether the performance of services organized by municipal governments that do not contract out would change if they moved to contracting out these services. Yet apart from these questions that often have relevance of their own, the *treatment effect on the treated* and the *treatment effect on the untreated* allow for a decomposition of equation (3):

$$\begin{aligned}
 E[\delta] &= p E[\delta|X=1] + (1-p) E[\delta|X=0] \\
 &= p \{E[Y^T|X=1] - E[Y^C|X=1]\} + (1-p) \{E[Y^T|X=0] - E[Y^C|X=0]\} \quad (4) \\
 &= \{p E[Y^T|X=1] + (1-p) E[Y^T|X=0]\} \\
 &\quad - \{p E[Y^C|X=1] + (1-p) E[Y^C|X=0]\}.
 \end{aligned}$$

Now, how can this be transformed into a feasible estimator of the average treatment effect?

The beauty of randomization

If one can make the assumption that the *potential* performance of organizations with special incentives for their employees does *not* depend on whether they will *actually* be assigned special incentives for their employees,

$$E[Y^T|X=1] = E[Y^T|X=0] \Leftrightarrow E[Y^T|X] = E[Y^T], \quad (5)$$

and one can also assume that the *potential* performance of organizations without special incentives for their employees does not depend on whether they will *actually* be assigned special incentives for their employees,

$$E[Y^C|X=0] = E[Y^C|X=1] \Leftrightarrow E[Y^C|X] = E[Y^C], \quad (6)$$

then one can resume with the last line of equation (4) and replace the non-intuitive quantities therein with more intuitive ones. Cleaning up, one ends up with a very simple estimator of the average treatment effect:

$$\begin{aligned} E[\delta] &= \{p E[Y^T|X=1] + (1-p) E[Y^T|X=0]\} \\ &\quad - \{p E[Y^C|X=1] + (1-p) E[Y^C|X=0]\} \\ &= \{p E[Y^T|X=1] + (1-p) E[Y^T|X=1]\} \\ &\quad - \{p E[Y^C|X=0] + (1-p) E[Y^C|X=0]\} \\ &= E[Y^T|X=1] - E[Y^C|X=0]. \end{aligned} \quad (7)$$

In other words, if the potential performance of organizations with or without special incentives for their employees carries *no* information about whether they will actually be assigned special incentives for their employees, then one simply needs to take the difference between the mean performance of organizations with special incentives for their employees and organizations without it. This mean difference is the estimator of the average treatment effect. It can be written in various ways, for example as a simple regression:

$$Y_i = \beta_0 + \beta_1 X_i + \varepsilon_i, \quad (8)$$

where $X_i = 1$ if organization i uses special incentives for their employees and $X_i = 0$ if organization i does not use special incentives for their employees.⁵⁴ The ordinary least squares estimator $\hat{\beta}_1$ is the estimator of the average causal effect δ because

$$E[Y^T|X=1] = \hat{\beta}_0 + \hat{\beta}_1 \text{ and } E[Y^C|X=0] = \hat{\beta}_0, \text{ so } E[Y^T|X=1] - E[Y^C|X=0] = \hat{\beta}_1.$$

Unfortunately, for this to work, the assumptions spelt out in (5) and (6) need to hold:

Special incentives for their employees need to be assigned *randomly* to organizations.

This is almost never the case.

Two sources of bias when randomization is infeasible

In the absence of randomization, one cannot carry out the simplifications done in (7).

Instead, it is necessary to return to the last line of (4) and see how the estimator derived in (7) fares when assumptions (5) and (6) do not hold.

$$\begin{aligned} E[\delta] &= \{p E[Y^T|X=1] + (1-p) E[Y^T|X=0]\} \\ &- \{p E[Y^C|X=1] + (1-p) E[Y^C|X=0]\}. \\ &= p E[Y^T|X=1] + E[Y^T|X=1] - E[Y^T|X=1] \\ &- p E[Y^T|X=0] + E[Y^T|X=0] \\ &- p E[Y^C|X=1] + E[Y^C|X=1] - E[Y^C|X=1] \\ &+ p E[Y^C|X=0] - E[Y^C|X=0] + E[Y^C|X=0] - E[Y^C|X=0] \\ \\ &-E[\delta] = \{ E[Y^T|X=1] - E[Y^C|X=0]\} \\ &+ (1-p) E[Y^T|X=1] - (1-p) E[Y^C|X=1] \end{aligned}$$

⁵⁴ Equation (8) can be rewritten as a two-group t-test or as an ANOVA.

$$\begin{aligned}
& - (1-p) E[Y^T|X=0] + (1-p) E[Y^C|X=0] \\
& + \{ E[Y^C|X=1] - E[Y^C|X=0] \}.
\end{aligned}$$

Finally,

$$\begin{aligned}
E[Y^T|X=1] - E[Y^C|X=0] &= E[\delta] + \{ E[Y^C|X=1] - E[Y^C|X=0] \} \\
&+ (1-p) \{ E[Y^T|X=1] - E[Y^C|X=1] - E[Y^T|X=0] + E[Y^C|X=0] \}
\end{aligned}$$

The result of these algebraic manipulations is very interesting:

$$\begin{aligned}
E[Y^T|X=1] - E[Y^C|X=0] &= E[\delta] \\
&+ \{ E[Y^C|X=1] - E[Y^C|X=0] \} \\
&+ (1-p) \{ E[\delta|X=1] - E[\delta|X=0] \}.
\end{aligned} \tag{9}$$

Equation (9) shows that the average treatment estimator $E[Y^T|X=1] - E[Y^C|X=0]$ can be decomposed into three parts. They are

- the true average treatment effect $E[\delta]$;
- the bias induced by the difference in baseline performance between the treatment and control groups $\{E[Y^C|X=1] - E[Y^C|X=0]\}$;
- and the bias induced by the difference in the treatment effect for those in the treatment and control groups $\{E[\delta|X=1] - E[\delta|X=0]\}$.

When assumptions (5) and (6) hold, i.e., when organizations are randomly assigned to treatment or control group, *both sources of bias vanish*. But since randomization is infeasible, every study that attempts to estimate the causal effect of a treatment needs to address both sources of bias.

What exactly do the terms in (9) represent in an observational study of organizations?⁵⁵ If an observational study finds that organizations with special incentives for their employees have a higher performance level than organizations without special incentives for their employees, there can be three reasons for this. First, special incentives for their employees might improve organizational performance on average. Second, organizations that use special incentives for their employees might have been outperforming those that do not use them even before they adopted special incentives for their employees. Finally, organizations that do use special incentives for their employees might benefit more from it than organizations that do not use it if they in fact were to adopt it.

There are various approaches to eliminate the bias induced by baseline differences between treatment and control groups. Unfortunately, there are few approaches to address the bias induced by differential treatment effects (Winship and Morgan 1999, 668). I now briefly consider different levels of quality of causal inference.

A hierarchy of standards of evidence for causal inference

The common law legal system provides an interesting analogy for the problem of causal inference. Depending on the nature of a case and where it is decided, the burden of proof varies and the standards of evidence are higher or lower. In United States courts, three different standards of evidence are recognized. They are, from lowest to highest,

⁵⁵ The following example is based on Winship and Morgan's (1999) substantive example. They discuss the effect of education on an individual's mental ability (667-668).

preponderance of evidence, clear and convincing evidence, and beyond a reasonable doubt. I now briefly introduce them, and then I use each standard of evidence as an analogy for certain research designs.

In civil cases, the most common standard is ‘preponderance of the evidence.’ Assuming probabilities can be assigned to two states of the world A and its complement $\sim A$, preponderance of the evidence for the claim that A is true would be fulfilled if the probability of A being true were greater than the probability of $\sim A$ being true, or $prob(A) > 1 - prob(A)$.

Minor criminal cases require the tougher standard ‘clear and convincing evidence.’ This is generally understood as there being a substantially greater chance that the claim is true than that it is not true. Using the same notation as in the previous paragraph, this could be expressed as $prob(A) \gg 1 - prob(A)$, where \gg would indicate ‘substantially greater.’

To obtain a conviction in a capital case, the prosecution needs to convince the jury that the defendant is guilty ‘beyond a reasonable doubt.’ A ‘reasonable person’ should have no doubt that the facts show that A is true. This could be expressed as $prob(A) = 1 - \epsilon$, where ϵ would indicate a tiny number, the very small probability by which a reasonable person could still be wrong because the true state of the world is unlike anything a reasonable person could conceive of. These three standards of evidence can be viewed as analogies for the strength of causal inferences that can be made from different research designs.

Beyond a reasonable doubt

This standard of evidence is resembled by randomized controlled trials because they allow for estimates of the true average treatment effect $E[\delta]$ that are free from bias, as shown above. While most questions in public administration cannot be addressed by randomized controlled trials because it would be infeasible or unethical, precise questions about whether or not a well-specified policy change works are best addressed this way. In addition, thinking about what a good experiment would look like helps develop second-best research designs, those that fall under the rubric ‘clear and convincing evidence.’

Clear and convincing evidence

The second-best alternative are research designs that contain serious attempts at removing the two sources of bias when randomization is infeasible, namely the bias induced by the difference in baseline performance between the treatment and control groups ($E[Y^C|X=1] - E[Y^C|X=0]$) and the bias induced by the difference in the treatment effect for those in the treatment and control groups ($E[\delta|X=1] - E[\delta|X=0]$). The best quantitative observational studies fall under this category. Generally, these studies make use of some truly exogenous variation to increase confidence in the findings. Where such exogenous variables cannot or are not exploited, one is left with the third-best category of causal inference, ‘preponderance of evidence.’

Preponderance of evidence

Most systematic research in public administration falls into this category. It is the third-best category of research design, since there is an attempt to use control variables to remove the bias induced by the difference in baseline performance between the

treatment and control groups ($E[Y^C|X=1] - E[Y^C|X=0]$). Yet it is very difficult to ascertain the control variables necessary to do this, so there is usually a proliferation of estimations with results differing depending on the control variables used and the functional form chosen. Both public administration theory and statistical specification tests are often too ambiguous to provide much help in deciding the best specifications, so the final specifications are often chosen somewhat haphazardly (Leamer 1978) or to shed a relatively favorable light on the investigator's hypothesis (Broad and Wade 1982). Consequently, research at the 'preponderance of the evidence' level of causal inference is as much an aesthetic as a scientific pursuit.

VITA

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